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World Business Newspaper http://www.FT.com TUESDAY MAY 27 1997

French premier to stand down

Gaullist leader Alain Juppé pays price of poll defeat

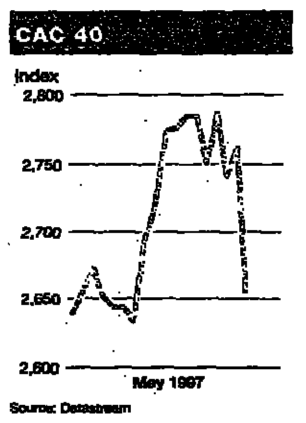
By Andrew Jack, David Buchan and David Owen in Paris

Mr Alain Juppé said yesterday that he would stand down as prime minister after the second round of voting in France's general election on June 1, as the ruling coalition met in emergency session after its unexpectedly low score last Sunday.

The move appeared to be a last-ditch attempt to rally support for the centre-right government. Mr Juppé had scored historically low opinion poll ratings in the last few months and become a focal point for critics of the government.

"A new step [in the campaign] has to begin now," Mr Juppé said yesterday. "It requires a new team, led by a new prime minister."

The decision was announced after the close of the financial markets, which dropped sharply yesterday in the wake of the results. The CAC-40 index of leading companies fell 3.9 per cent during the day, while the franc slipped in early trading, but then held relatively steady.



Shares in Thomson-CSF, the French defence electronics giant, fell by 9.6 per cent amid fears that a victory for the left would threaten privatisation of the group, which Mr Juppé had strongly advocated.

Final figures released by the interior ministry yesterday for 566 of the 577 electoral districts showed the combined left-wing parties with 40.2 per cent of the votes, against 36.5 per cent for those on the centre-right.

Several polling organisations predicted this would lead to a narrow left-wing majority in the parliament.

Mr Jacques Toubon, the Gaullist justice minister and number two in the government, said Mr Juppé had "paved the way to the new majority we are trying to construct."

The prime minister's resignation had been mooted several times during the campaign. Yesterday morning there were hints he was likely to go from two senior Gaullist figures – Mr Philippe Séguin, the National Assembly leader, and Mr Raymond Barre, the former prime minister.

The announcement triggered intense speculation on a possible successor if the centre-right won re-election.

Names mentioned have included Mr Séguin, Mr Toubon, Mr Edouard Balladur, the former prime minister, and several leading businessmen.

The centre-right's efforts to rally support were set to continue tonight with a television address by President Jacques Chirac, who has already intervened twice during the campaign in favour of the governing coalition.

Meanwhile France's left-wing parties began gearing up yesterday to capitalise on Sunday's success, with the socialists saying they would join the communists and the green party at a joint rally this week. Mr François Hollande, the socialist party's spokesman, stressed his commitment to monetary union.

But he criticised the "arithmetical approach to 3 per cent" for the government deficit in the Maastricht treaty on European monetary union, and pledged "not to impose austerity on the French people."

Mr Robert Hue, leader of the Communist party, which captured 10 per cent of the vote, yesterday indicated his willingness to be part of a left-wing government.

He stressed that there was considerable common ground between the socialists and the communists, but laid down conditions including an immediate reduction in value added tax, an increase in the minimum wage, and a cut in the working week without any accompanying fall in wages.

Cigarette rivals in legal conflict over new brand

Two big tobacco companies are locked in a legal wrangle involving their Australian divisions over an alleged lookalike cigarette brand.
WD & HO Wills, owned by Britain's BAT group, claims the new Summit brand of US rival Philip Morris was deliberately packaged to look like its six-year-old Horizon brand, which accounts for about 14 per cent of a market worth A$6bn ($4.6bn) a year. Page 20

Japanese move on security role: The push in Japan to overhaul its 1947 pacifist constitution and expand its international security role has gained momentum with the setting up of the first parliamentary group openly supporting revision of the constitution. Page 8

Gazprom assurance: Russia's first deputy prime minister, Boris Nemtsov, has promised the interests of foreign investors in Gazprom, the gas monopoly, will be protected in any government action to simplify the company's dual shareholding structure. Page 20; Nemtsov interview, Page 19; Polish deal, Page 24

Gevaert rises on asset move: Shares in Gevaert, Belgium's fourth-largest holding company, jumped 12 per cent on the announcement that its BFr77bn ($2.2bn) worth of assets were to be split between two main shareholder holding companies, Almanij, the country's third-biggest, and Cobepa, ranked fifth. Page 21

Thai trading disrupted: Recurring computer breakdowns limited dealing on Thailand's stock exchange to about half an hour, following the breakdown of takeover talks between Thai Danu Bank and debt-laden Finance One, the country's biggest finance company.

Dutch plea on jobs policy: The Dutch presidency of the European Union has urged Germany to sign the employment chapter proposed for the revised Maastricht treaty, arguing that economic and monetary integration cannot be separated from the convergence of labour markets and employment trends. Page 4

HK extends groundings: Hong Kong's civil aviation authorities asked Garuda, the Indonesian carrier, to suspend flights of its Airbus 300 aircraft to the British colony. The action came three days after Cathay Pacific and Dragonair grounded their Airbus 300-330 jets because of problems with Rolls-Royce Trent 700 engines.

German tax reforms advance: Germany's political parties moved closer to a deal to reform the country's tax system. Government leaders welcomed elements of a Social Democratic party plan to cut basic income tax but also to make companies pick up much of the bill by adopting tighter American-style treatment of reserves. Page 20

BHP, Australia's largest company, saw the euphoria in its shares evaporate when it warned of flat earnings and abnormal charges. Shares tumbled 40 cents, to close at A$18.92 ($14.60), after a rise of more than 11 per cent in May on news of a steel restructuring. Page 24

Nippon Credit Bank reported a record loss in the year to end-March 1997, mainly stemming from write-offs for property-related bad loans. Page 21

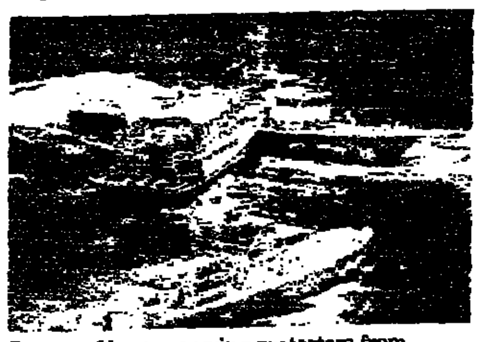
EU drops Seoul complaint: The European Union has dropped its threat to challenge South Korea's "frugality" campaign in the World Trade Organisation, following actions by the Seoul government to ensure that the campaign does not discriminate against imports. Page 6

Military rebukes Turkish PM: Turkey's generals, self-appointed guardians of the country's secular system, rebuked prime minister Necmettin Erbakan over his Islamic policies and announced a purge of pro-Islamic military officers. President warns against coup. Page 2

Israeli jets strike in Lebanon: Two Israeli warplanes fired four missiles at suspected Hezbollah guerrilla bases in southeastern Lebanon, in apparent retaliation for a bomb ambush that injured two Israeli-allied militiamen.

Dinosaurs rule: The dinosaurs of Steven Spielberg's film, *The Lost World: Jurassic Park*, trampled box office records by taking $85.7m for the US four-day Memorial Day weekend, beating the previous $56.8m record of *Mission: Impossible* last year and the one-day and three-day records of 1995's *Batman Forever*. Page 6

Japanese block island protesters



Dozens of boats carrying protesters from Taiwan and Hong Kong retreated from the East China Sea after being bumped about by Japanese coast guard ships blocking their landing on the disputed Diaoyu islands, called Senkaku by Japan, which claimed them in 1895. The islands lie between Taiwan and Okinawa.

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Yen's rise threatens wave of Japanese bond losses

By Gillian Tett in Tokyo

The recent rise of the yen against the dollar is threatening to trigger a wave of bond-related losses among Japanese stockbrokers and investors.

Since the beginning of this month the yen has appreciated some 10 per cent against the US dollar, leading to losses on so-called "dual currency" bonds. These are denominated in yen but pay interest in higher-yielding currencies such as the US dollar and Australian dollar.

Small savers who bought these bonds heavily in the past two years will bear some of the losses. Also hit will be many smaller Japanese stockbrokers which have sharply increased their dealing in such bonds recently, in an effort to carve out a business niche before Tokyo's planned financial deregulation. They have been left with the bonds on their books as investor demand has dried up.

Ms Mineko Sasaki Smith, chief economist at Credit Suisse First Boston, said: "It has been a very very hard lesson for the securities houses and investors. They basically have been assuming that the dollar would only appreciate."

The scale of the losses remains unclear, partly because disclosure in the market is very patchy.

About Y2,066.5bn ($18bn) in mainly two-to-10-year dual currency bonds were sold between April and December last year and sales during the first four months of this year have been heavy.

Some traders suggest that about Y200bn in a new three- and six-month dual currency paper has been sold so far this year.

Matters are complicated because some dual currency bonds contain clauses which mean that investors receive the repayment of principal in dollars or other foreign currencies if the yen-dollar exchange rate rises above a certain level.

These so-called "knock-out" clauses have been set at a level of between Y115 and Y120 per US dollar and have been triggered by the yen's recent rise. After trading near Y127 at the start of this month, the yen rose to near Y112 before falling back to about Y116 yesterday.

The episode has generated political controversy with complaints from securities companies to government officials from companies bitter that the Japanese government did not prevent recent currency volatility.

$11bn deal puts Roche at top in diagnostics

By William Hall in Zurich

Roche, the Swiss pharmaceuticals group, is paying $11bn for Boehringer Mannheim Group, a leading medical diagnostics company, in the biggest acquisition in its history. The deal will make Roche a world leader in the $19bn-a-year market in equipment used to diagnose illnesses.

Roche has agreed to buy all the shares of Corange, a private Bermuda company which owns Boehringer Mannheim Group, and 84.2 per cent of DePuy, a US-based manufacturer of orthopaedic products. About two-thirds of Boehringer Mannheim's sales of $3.5bn are in diagnostics and the rest is pharmaceuticals.

Mr Fritz Gerber, Roche's chairman and chief executive, said Roche saw "long-term potential in the areas of disease management and patient care, both of which are gaining importance in the context of continuing efforts to reduce healthcare costs".

The acquisition will quadruple the size of Roche's diagnostics business, the smallest of its four divisions, and create one of the world's two biggest companies in the field with annual sales of SFr3.5bn ($2.4bn) and 13,500 employees. Abbott Laboratories of the US claims to be similar in size.

The acquisition will also increase Roche's share of the global pharmaceuticals market from 2.7 per cent to 3 per cent. DePuy will take Roche into an area of healthcare where it has not been represented.

Ms Birgit Kulhoff of UBS in Zurich said the deal "made a lot of strategic sense". However, she was worried that Roche was paying a high price to expand in a business where it is currently doing little more than breaking even, and where margins are lower than in the pharmaceuticals business.

Boehringer Mannheim, founded in 1847, is one of the last big family-controlled pharmaceuticals companies. It employs 18,000, nearly half based in Germany. However, the company has had difficulty

Roche chief executive Fritz Gerber (left) and Gerhard Moeller of Boehringer Mannheim Reuter

in maintaining its position as one of the world's leading diagnostics companies and broadening the base of its pharmaceuticals operations.

Mr Henri Meier, Roche's chief financial officer, said Roche was paying between 24 and 25 times prospective 1997 earnings.

Corange reported net income of $520m in 1996, but after adjusting for the extraordinary gain on the initial public offering of DePuy on the US stock market, its net income dropped to $366m, or SFr512m.

Roche has liquid assets of SFr15bn and has not yet decided whether to raise a

Continued on Page 20
Lex, Page 20; Roche confounds analysts, Page 21

Italy's northern separatists step up the pressure

By Robert Graham in Rome

Mr Umberto Bossi, leader of Italy's populist Northern League, yesterday stepped up his confrontation with the central government in Rome by calling for an official referendum on the independence of "Padania", an as yet ill-defined area of northern Italy.

In tough language, he also said the league would play no part in the work of the constitutional reform commission which is considering innovative proposals to turn Italy into a federal state.

"Our people are in a full state of rebellion," he said.

The new outburst from Mr Bossi came at a press conference in the wake of Sunday's unofficial referendum, staged by the league in the cities and small towns of northern Italy around the Po Valley.

League officials claimed some 4.8m people had voted at more than 13,000 white gazebo-style tents. Mr Bossi declared the result – a 99 per cent vote in favour of northern secession – to be better than he had expected.

However, witnesses reported many fewer voting stations than boasted by the League, and a thin turn-out except for hard-core supporters of the movement dressed ostentatiously in their green uniform shirts.

Several journalists even said they had voted in up to 10 different places without any real control.

Voters were asked: "Do you want Padania to become an independent, sovereign, federal state?" However, the voting slips did not attempt to define the real area of this notional state.

The main parties yesterday dismissed Mr Bossi's antics as little more than a propaganda stunt after months of silence in the wake of his declaration last September of an independent republic of Padania.

But party leaders underlined that there was an urgent need to address the north's discontent with an inefficient central government in Rome.

"There hasn't been a referendum on the independence of Padania," observed Mr Franco Bassanini, minister in charge of the public administration. "Let's call things by their

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Doubts remain over Russia and Nato

By Bruce Clark in Washington

Today's agreement between Russia and Nato could mean the advent of a new era in European security, with Moscow playing an important part in coping with every problem the continent faces, from Balkan squabbles to biological warfare.

On the other hand, as western diplomats freely acknowledge, it could mean virtually nothing at all.

The unknown factor, they add, is how much use Russia will make of a consultation process that is designed to be as long as the proverbial piece of string – creating the potential for co-operation without tying either side down.

Russia has sent out some confusing signals in recent years over the depth of the relationship it wants with Nato – often making loud demands for wide-ranging co-operation and then abruptly losing interest.

"The Russians have always been very ambiguous about co-operation with Nato, particularly military-to-military links," said one Nato official, noting that Moscow's enthusiasm for Partnership for Peace, the Nato-led military co-operation programme, had fluctuated considerably.

Russia joined PFP in June 1994, froze its participation six months later – in protest against Nato's enlargement plans – and formally restarted co-operation the following summer, but with little practical effect. The internal problems of the Russian military appear to have limited its capacity to participate in expensive, multinational war games which are one of the main activities of the PFP.

Western diplomats say Mr Pavel Grachev, the former Russian defence minister, was desperately keen for his country to show the flag when Nato launched its peace-keeping effort in Bosnia in December 1995.

But the Russian contribution of 1,000 crack troops – made under a bilateral US-Russian arrangement that avoided the humiliation of direct Russian subordination to the alliance – has clearly stretched Moscow's resources.

Today's accord sets out a long list of topics which a new institution, the Nato-Russia council, might consider. They include conflict prevention, peace-keeping, military doctrine, arms control, nuclear safety, counter-proliferation and even theatre missile defences.

Since Nato's existing members are only in the earliest stages of pooling their efforts in the field of counter-proliferation, the idea of co-operating with Russia is strictly hypothetical. But in theory at least, western and Russian missile interception systems – an area in which Russian technology excels – could one day be part of a pan-European shield to protect the continent from rogue states further afield.

Back in the real world, diplomats are stressing that the so-called "founding act" of the new relationship – which is not a legally binding treaty and needs no ratification – will not force either side to go a step further than it wishes.

As the text makes clear, the new arrangements "do not provide Nato or Russia, with a right of veto over the actions of the other, not do they infringe upon or restrict the rights of Nato or Russia to independent decision-making and action".

This provision will be vitally important in selling the agreement – and the broader US vision of a new European security order based on an expanded Nato – to a sceptical US Senate. While many European politicians, and some liberal Democrats in Washington, worry that the US administration's plans are too provocative towards Russia, most members of the Republican-controlled Senate have the opposite fear - they think it gives Russia too much.

Senator William Roth, who heads an "observer group" of US legislators with a keen interest in Nato expansion, says vigilance will be required to prevent the Russians from obtaining too much say in Nato affairs.

Senators will be particularly concerned to safeguard the independence of the North Atlantic Council, the institution which groups the full 16 members of the alliance, he said. The Russia-Nato agreement "provides for close consultation on many different matters, which is all right as long as it doesn't interfere with the NAC," said Senator Roth. "This is something we have to watch with considerable care and concern."

In particular, the alliance must be careful not to give Russia any veto over future candidates for Nato membership, said the senator.

Personal view, Page 18

Russian nationalists demonstrating in Moscow yesterday hold anti-Nato slogans warning of a threat to world peace as Nato leaders prepared to sign a treaty in Paris with Russia *Reuter*

EUROPEAN NEWS DIGEST

Investment blow to Germany

Foreign direct investment in Germany dropped last year to a record low of DM1.14bn ($660m) from DM18.23bn in 1995 as Canadian and Japanese investors pulled capital out of the country, the economics ministry reported yesterday.

German direct investment abroad also declined to DM38.8bn in 1996 from DM52.16bn in 1995, when the flow of funds abroad was swelled by some exceptionally large transactions, including Hoechst's acquisition of Marion Merrell Dow of the US and Dresdner Bank's purchase of Kleinwort Benson, the UK investment bank.

The US was the most favoured destination for German foreign direct investment last year, accounting for DM8.77bn, followed by Austria (DM4.89bn) and the UK (DM4.72bn). German investments in the former communist countries of eastern and central Europe increased to DM4.4bn from DM4.15bn while those in other European Union states fell to DM18.37bn from DM32.46bn.

Pointing out that the net outflow of direct investment increased to DM37.7bn last year from DM33.9bn, Mr Günter Rexrodt, the economics minister, said the figures underlined the need for structural reform including the implementation of the government's tax reform plans. However, the large-scale foreign direct investment by German companies would safeguard jobs at home by securing new markets abroad.

■ Consumer price inflation quickened in Germany this month with provisional returns from four western Länder showing a 1.5 per cent year-on-year rise after 1.3 per cent in April, the federal statistics office said. Prices rose 0.4 per cent from April to May, reflecting more expensive seasonal foods and holidays. *Peter Norman, Bonn*

Slovak foreign minister quits

Slovakia's foreign minister, Mr Pavol Hamžík, resigned yesterday, saying the circumstances surrounding the failure of a two-pronged referendum at the weekend had made it impossible for him to serve in the government of prime minister Vladimír Mečiar.

The referendum on Nato membership and direct presidential elections collapsed in chaos after accusations of rigged ballot papers led to a boycott by voters. Less than 10 per cent of the electorate voted, rendering the result invalid.

The failure of the referendum was caused by the omission of a question on whether Slovaks wanted their president to be directly elected. It is the most serious development yet in a long-running feud between Mr Mečiar, who opposed direct elections, and President Michal Kováč, who supported them. Mr Hamžík, a former Slovak ambassador to Bonn, said in a statement that "the foreign minister cannot effectively seek to realise his goals in a situation when everything, including the vital international interests of Slovakia, is subordinated to domestic fights for power". *Vincent Boland, Prague*

Goncz visits Romania

President Arpad Goncz, on the first ever visit to Romania by a Hungarian head of state, yesterday unveiled a monument to the leaders of the 1956 Hungarian uprising in the Romanian village of Snagov, where they were imprisoned after the rising was crushed by Soviet troops. Prime Minister Imre Nagy and his companions were later returned to Hungary and executed.

The visit was praised as a "historic step" by President Bill Clinton, in a letter delivered yesterday to Mr Goncz and Romanian President Emil Constantinescu. In their speeches, both men have stressed the significance of the visit as a symbol of reconciliation between the two countries, which during this century have been bitter enemies. A protest meeting by Romanian nationalists in the city of Cluj, which Mr Goncz is visiting, sought to draw on these bitter memories, but only attracted around 1,000 participants.

Underlining the progress in relations between the two countries, the Romanian government over the weekend issued decrees allowing the use of the Hungarian language by local councils in areas where the Hungarian minority is strongly represented. The Hungarian Export-Import Bank has also extended a $12m credit line to Romania to finance the purchase of Hungarian products, the first such facility offered to Romania by the bank. *Anatol Lieven and Kester Eddy, Budapest*

France hopeful on Nato deal

A deal giving Europeans more command responsibility within Nato would be reached before the Atlantic alliance's summit in July, Mr Hervé de Charette, the French foreign minister, forecast yesterday after holding talks with his US counterpart, Mrs Madeleine Albright.

In talks on the eve of today's signing ceremony in Paris of a new charter between Nato and Russia, the French and US diplomatic chiefs also discussed the issue of Nato's enlargement to embrace several east European countries. A State Department spokesman said the US and France agreed "on certain (candidates) but need more discussions to get a consensus". France and the US were understood to agree on Poland, the Czech republic and Hungary joining Nato, but Washington still balks at France's promotion of Romania as a new alliance member. *David Buchan, Paris*

Missile contracts go-ahead

The ministries of defence of Italy, France and Britain yesterday gave the go-ahead for the awarding of contracts for the development and initial production of Paams, the missile system being developed by the three nations.

The missile system is being developed to defend frigates in the navies of the three countries.

This was announced in a statement from the consortium Eurosam, which has a 66 per cent stake in the joint venture developing the missile. *Reuter, Rome*

Turkish president warns against military coup

By Edward Mortimer in Ankara

Immediate elections, not a military coup, would be the right solution to Turkey's political crisis, according to President Süleyman Demirel.

Mr Demirel, twice deposed as prime minister by the armed forces in 1971 and 1980, said yesterday there was no reason to fear another coup. But he went on, in an interview with the Financial Times, to give what sounded like a warning to the army not to stage one. And he lamented that the constitution does not give him power to dissolve parliament. "I would do it now," he said, because the behaviour of politicians in the present parliament was "degrading democracy".

As the president spoke, the uneasy stand-off continued between the army and the Islamist prime minister, Mr Necmettin Erbakan. Yesterday Mr Erbakan had to preside over a special session of the Supreme Military Council and countersign orders dismissing a number of army officers accused of harbouring political views broadly similar to his own.

The government, which narrowly survived a parliamentary challenge last week, has since suffered further defections from its secular component, the True Path party, whose leader, deputy prime minister and foreign minister Mrs Tansu Çiller, faces a spreading revolt.

A cabinet meeting today will, if it goes ahead, be the first for seven weeks. The two parties are unlikely to reach agreement on an extension of compulsory state education; which the armed forces have demanded to counter the influence of religious schools – an issue which is bound to come up again on Saturday when political and military leaders meet, under Mr Demirel's chairmanship, in the National Security Council.

In the interview, Mr Demirel defended the council's role, claiming: "When soldiers sit there they are not soldiers any more." The government would have no excuse for not implementing its recommendations, he said, since senior ministers including Mr Erbakan and Mrs Ciller were members of it and had signed its decisions. "If they are not able to implement it, either they should not have signed, or they should resign," he said.

The president insisted that all problems would be resolved democratically according to the constitution, and that there was no need for a coup. The armed forces, he pointed out, "have intervened three times in political matters" [in 1960, 1971 and 1980] "and it didn't work. They were not able to solve any problem. On the contrary, our difficulties were increased." Indeed, he said, Turkey's present problems were largely due to the fragmentation of its political structure caused by the coup of 1980.

Czech currency abandons link to US dollar

By Vincent Boland in Prague

The head of the Czech central bank said last night the bank was linking the currency directly to the D-Mark from today and abandoning its policy of linking it to a basket of the D-Mark and the US dollar.

Mr Josef Tošovský, governor of the Czech National Bank, told a joint news conference with Mr Václav Klaus, prime minister, that the trading band was being abandoned and that "the relation of the koruna to the mark will be decisive".

The move follows 10 days of speculative attacks on the koruna on foreign exchange markets during which the CNB has spent an estimated $3bn trying to maintain the currency within its trading band.

Mr Klaus said the government supported the central bank's decision to abandon the trading band. He said the attacks on the koruna had become "too expensive to fight" and acknowledged they were motivated "partly due to political instability."

Mr Tošovský also said he expected the government to make additions to a recent package of measures to revive the economy. Mr Klaus said he would announce further policy changes in the next few days.

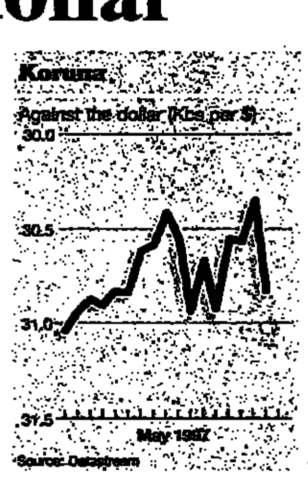
The move came as the Czech Republic's foreign trade deficit, which lies behind many of the problems currently facing the country on foreign exchange markets, widened further last month despite a rare good performance by exporters.

Continued nervousness surrounding the koruna was also compounded by further political deadlock in the government. Attempts to finalise a cabinet reshuffle were postponed to today, when coalition leaders are due to meet again, under intense pressure from the public and President Václav Havel, to hammer out a new government.

According to figures released yesterday by the Czech Statistics Office, the cost of imports exceeded the value of exports in April by Kc15.3bn ($512m). It brings the total foreign trade deficit for the first four months of 1997 to Kc53.6bn.

The figures added to the jitters surrounding the Czech koruna on foreign exchange markets yesterday.

Analysts said the deficit figure was disappointing despite a strong recovery by exports, which rose about 23 per cent in April compared with the same month last year. Import growth rose by was 11.2 per cent. The figure was also higher than had been predicted by the prime minister. He was reported last week to have said the deficit for the month would be Kc11.4bn.



Blow to inquiry into ferry sinking

By Greg McIvor in Stockholm

The international inquiry into the Estonia ferry disaster in 1994 was jolted yesterday when its Swedish chairman was forced to resign after admitting to lying over the existence of a document sent to the inquiry.

Mr Olof Forsberg stepped down after acknowledging that he lied to cover up the mislaying of papers he received two weeks ago that shed light on which Swedish regulatory body was responsible for inspecting the ferry's bow door.

Faulty locking on the bow door and inner vehicle ramp was the prime cause of the sinking, the inquiry's interim report in 1995 said. The disaster, Europe's worst peacetime maritime accident this century, claimed the lives of 837 people.

Mr Forsberg's actions are a further blow to the credibility of an inquiry which has been beset by delays and internal frictions since its formation. The communications minister, Ms Ines Uusmann, who yesterday summoned Mr Forsberg for a meeting shortly before his resignation, indicated the inquiry's credibility would be irrevocably tarnished unless he resigned.

She said it was too early to gauge the effect on the investigation, and rejected opposition calls into the handling of the inquiry.

The final report into the sinking had been due to be published by mid-year, having first been expected to be ready by September 1995. The commission of experts from Estonia, Finland and Sweden was hit by delays believed to have arisen from internal disputes.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales

1/2 hour period ending	Provisional Price for 27.05.1997: Pool purchase price £/MWh	Final Prices for Trading 29.04.1997: Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
0030	11.57	11.87	11.61	0.00
0100	9.50	11.61	11.61	0.00
0130	11.55	11.67	11.67	0.00
0200	11.55	14.63	14.90	1.17
0230	11.55	23.01	23.28	1.17
0300	11.55	23.01	23.28	1.17
0330	9.50	14.63	14.90	1.17
0400	9.50	14.63	14.90	1.17
0430	9.50	14.63	14.90	1.17
0500	9.50	14.63	14.90	1.17
0530	9.19	11.61	11.61	0.00
0600	7.00	11.65	11.65	0.00
0630	11.58	11.62	11.62	0.00
0700	11.60	20.79	20.97	1.17
0730	7.00	23.08	23.36	1.17
0800	15.12	23.73	24.05	1.17
0830	24.31	32.47	32.80	1.17
0900	21.88	32.52	32.88	1.17
0930	30.82	25.22	25.56	1.17
1000	30.82	25.21	25.55	1.17
1030	33.72	25.20	25.53	1.17
1100	33.72	25.21	25.55	1.17
1130	33.72	25.28	25.64	1.17
1200	27.33	27.24	27.62	1.17
1230	27.33	27.71	28.08	1.17
1300	27.33	27.62	27.96	1.17
1330	22.31	27.54	27.85	1.17
1400	24.31	25.00	25.30	1.17
1430	30.82	25.01	25.31	1.17
1500	30.82	27.48	27.78	1.17
1530	22.31	22.48	22.78	1.17
1600	21.88	22.52	22.82	1.17
1630	22.31	27.58	27.91	1.17
1700	33.00	32.50	32.85	1.17
1730	33.00	32.74	33.07	1.17
1800	33.00	32.38	32.68	1.17
1830	21.82	27.44	27.72	1.17
1900	19.91	25.25	25.53	1.17
1930	18.10	25.25	25.53	1.17
2000	18.10	22.18	22.48	1.17
2030	11.60	25.25	25.53	1.17
2100	11.59	50.75	51.03	1.17
2130	21.34	57.78	58.05	1.17
2200	32.67	57.78	58.05	1.17
2230	32.67	31.03	31.30	1.17
2300	32.67	22.18	22.48	1.17
2330	18.10	20.70	20.97	1.17
2400	7.00	14.00	14.32	1.17

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £18.85/MWh becomes 1.885p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreement which governs the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. The Transmission Services Use of System Price (TSP) is charged by the National Grid Company plc (NGC) for the operation and development of its electricity transmission system for the purpose of optimising the costs arising from the operation of that system. Charges are calculated by NGC and are based on payments made by NGC into the Pool. TSP is also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool and on TSP on behalf of NGC by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 945 6788 between 8.30am and 5.15pm Monday to Friday.

Relief as short-term money flees Warsaw

By Christopher Bobinski in Warsaw

The Czech Republic's financial crisis has seen "several hundred million US dollars" of short-term investments leave Poland in the past few days, according to Mr Marek Belka, the deputy premier responsible for the economy. But this has been greeted with relief in Warsaw, Mr Belka said, as "anyway we want to discourage the inflow of speculative investments which we estimate stood at around $1.2bn in short-term government paper before the withdrawal began".

Despite the outflow, foreign currency reserves, which stayed stable at $18bn in the first quarter of the year, have now risen to $19bn, Mr Belka said. Nevertheless the government is confident that this year's inflation target of 13 per cent will be met. Last year inflation reached 18.5 per cent.

Poland, which expects to see its trade deficit grow this year to $12.6bn from $8.2bn in 1996, will continue to devalue the zloty gradually through a monthly "crawling peg mechanism" giving a 9.1 per cent fall in value for the year.

But the government, which is working closely with the central bank on exchange rate policy, does not see any need for an increase in the devaluation rate, Mr Belka said. "Indeed, the pressure isn't there. The central bank only had to spend $15m to raise the rate of the zloty by 1 per cent last Friday," he added.

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NEWS: THE FRENCH ELECTION

French PM quits an untenable position

By David Buchan in Paris

FRENCH ELECTIONS

The French centre-right coalition now has a lame duck premier leading it into next Sunday's second-round parliamentary election, after Mr Alain Juppé said yesterday that the country "needs a new team run by a new prime minister".

Mr Juppé broke the news that he would quit after the June 1 run-off election to the campaign committee of the Gaullist RPR and centre-right UDF coalition, a day after it had taken a hammering in Sunday's first round – with the coalition's vote sinking to just below 30 per cent, the lowest for decades.

Even adding in an Independent Right score of 6.5 per cent, the right was substantially outpolled by the combined forces of the left, which topped 40 per cent. The presence of the far-right National Front, which is nobody's overt ally in this election, in nearly a quarter of the second-round contests for the 577 National Assembly seats will probably hit the conventional right harder than the left, because Front candidates tend to draw more support from right than left.

Mr Juppé made his resignation announcement after a brief afternoon visit to see President Jacques Chirac at the Elysée. But it scarcely matters whether the prime minister jumped of his own accord, or was pushed by Mr Chirac, because Sunday's results had made his position untenable.

Indeed, the speedy announcement of his impending departure is intended to reassure the electorate that it can vote the centre-right back into office secure in the knowledge that the country will not be led by the unpopular Mr Juppé for the next five years.

The issue of Mr Juppé's personality has dogged the five-week campaign, in which several centre-right candidates declined offers by the prime minister to speak at their rallies. His popularity rating in the opinion polls has at times over his two years in office sunk to record lows.

It never really recovered from the strategic blunder he made in November 1995 when he overloaded his reform agenda by coupling sweeping overhaul of the health and welfare system with attempts to abolish public sector pension privileges and to squeeze more productivity out of the railways. Five weeks of massive strikes followed. Thereafter Mr Juppé never shook off the image of a cold-blooded technocrat in a hurry, even though he subsequently slowed down the pace and scale of reform.

In the final week of the election campaign, the left will now have to look for another target. Mr Chirac is unlikely to help them find one by saying this week whom he would appoint in Mr Juppé's place, if, as the Gaullist president still hopes, the centre-right wins.

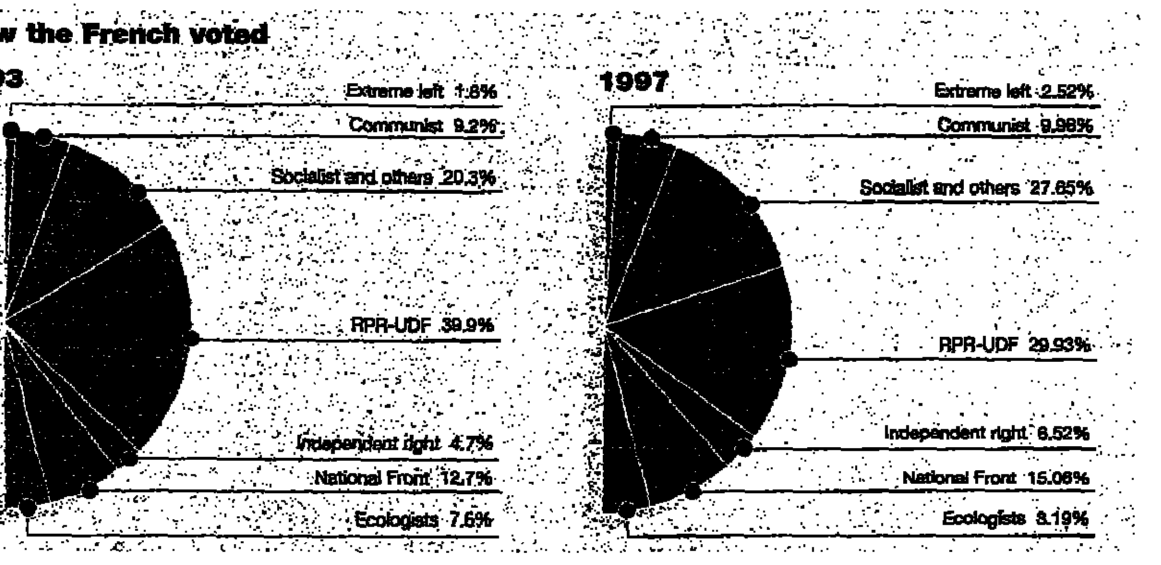
In the past two weeks, Mr Lionel Jospin, the Socialist leader, had begun to take the precaution of broadening his attack beyond Mr Juppé to other possible premiers, mentioning Mr Jacques Toubon, the justice minister, Mr Edouard Balladur, who was Mr Juppé's predecessor as prime minister, and Mr Nicolas Sarkozy, the former budget minister.

Significantly, he never mentioned Mr Philippe Séguin, now a serious contender to lead any centre-right government precisely because he is quite popular on the left.

All these men are Gaullists. But there is just a possibility that if the right scrapes home, the next prime minister might come from the UDF, possibly its president, Mr François Léotard.

The UDF has always been the RPR's junior partner, and sometimes rival, because the centre-right federation has always commanded fewer seats. The balance of power inside the coalition might change next Sunday, if for instance Paris, hitherto almost entirely a RPR fief, swings heavily to the left.

How the French voted



NF supporters ponder which way to jump

By David Owen in Paris

They may still not win a single seat. But the result of the first round of the French general election leaves the hard-right National Front in a position to exert a heavy – perhaps determining – influence on Sunday's run-off.

The increase of more than 2 percentage points in its share of the popular vote, from 12.7 per cent in 1993 to a shade under 15 per cent this time, will almost certainly not be enough for Mr Jean-Marie Le Pen's party to meet its objective of holding the balance of power in the next parliament.

Its score is marginally lower than that achieved by Mr Le Pen in the last presidential election in 1995.

But it has proved sufficient to send a National Front candidate through to the second round in 133, or almost a quarter, of the country's 577 constituencies – enough for the party to be said to have achieved a sort of critical mass.

In practical terms, the hard right's influence may be most telling in the up to 78 so-called *triangulaires*, or three-cornered contests, where a National Front candidate will meet rivals from the left and the centre-right in a single constituency.

The consequent split in the rightwing vote could, in certain cases, enable a Socialist or Communist candidate to squeak through with a comparatively low share of the vote. For instance, Mr Bruno Gollnisch, the party's secretary general, came second in a Rhône contest with nearly 29 per cent, against 31 per cent for the incumbent Socialist and 22 per cent for the UDF.

In the 444 constituencies where there is no second-round National Front candidate, much will depend on whom the party leadership recommends its supporters vote for and whether the supporters accept.

Mr Le Pen, who is not contesting a seat, has indicated his readiness to call on his supporters to vote Socialist to force President Jacques Chirac into a damaging – and extended – period of "cohabitation" with the left. But other National Front leaders are thought to favour a case-by-case approach, with the party's support pledged, for example, to candidates prepared to come out against the Maastricht Treaty.

Many observers, in any case, believe those who voted for defeated National Front candidates in the first round will have their own views on who to support on Sunday. According to Mr Dominique Moïsi, deputy director of the Institut Français des Relations Internationales, "Some of them – and probably a lot of them – will either abstain or vote for the right because they now consider that a win for the left is possible."

The party made particular first-round headway in eastern France and in some, principally rural, areas in the centre of the country.

Paris bourse prices tumble in wake of poll result

By David Owen

The unexpectedly strong showing of the left took its toll on the Paris Bourse yesterday, with shares recording their biggest single-day percentage fall in more than four years.

The benchmark CAC 40 index closed down 108.16 points, or 3.91 per cent, at 2,654.74 on "normal" trading volume of some FFr7.4bn ($1.3bn).

The tumble follows a period when the market has been buoyant on expectations of a clear centre-right victory.

Among the stocks losing the most ground were some of those involved in the planned privatisation of Thomson-CSF, the defence electronics giant, which the Socialist party has pledged to stop if it gains power.

Thomson-CSF itself was down FFr18.20, or 9.6 per cent, at FFr171.30, while Dassault Electronique – part of the Dassault group, which has made a joint bid for Thomson with Alcatel Alsthom, the telecoms and engineering group – fell FFr41, or 6.9 per cent, from FFr590 to FFr549.

Lagardère, the magazines-to-missiles group that is Alcatel/Dassault's rival bidder, shed FFr10.80, or 5.8 per cent, to FFr174.50. Alcatel itself was hit less hard, falling FFr19, or 2.8 per cent, to FFr661, a phenomenon perhaps reflecting both the apparently improving prospects of its core telecoms division and continuing scepticism that the acquisition of Thomson would be an unmitigated good for the group.

Financial institutions also suffered, with falls ranging from 6 per cent to 8.75 per cent.

On the Matif futures market, the 10-year Treasury bond contract settled with a loss of 0.54 at 128.30. After slipping in early trading, the French franc held relatively steady against the D-Mark at FFr3.375.

Battle continues for many big names

By Andrew Jack in Paris

Some of France's more influential and well known politicians have been forced into a humiliating second round of fierce campaigning this week as a result of lower than expected scores in the ballot for the country's National Assembly last Sunday.

Just 12 of the 577 seats were won outright in the first round of voting – including among the Gaullists Mr Nicolas Sarkozy, the former finance minister, and Mr Bernard Pons, the transport minister. At the opposite extreme, candidates in 105 districts face a three-way run-off.

Among those whose seat is threatened is Mr Jacques Toubon, a close ally of President Jacques Chirac and a candidate for re-election in Paris. His current role as justice minister is particularly sensitive at a time of numerous corruption investigations and a pledge by the president to remove any political interference into the judiciary.

Mr Jean-Louis Debré, the interior minister whose legislation introduced this year to toughen immigration controls provoked a fierce debate, is also in a close fight.

So too are a number of other senior cabinet members: Mr Alain Lamassoure, the budget minister and government spokesman; Mr Dominique Perben, the civil service minister; Ms Corinne Lepage, environment minister; and Mr Pierre-André Périssol, housing minister.

Mr Jean Tiberi, the Gaullist successor to Mr Chirac as mayor of Paris, who has held his National Assembly seat since 1968 and has only once been forced into a run-off, in 1973, will also be required to compete against a Socialist candidate next Sunday.

His sharp drop in support partly reflects the national trend away from the RPR, but also a number of corruption allegations centred on his management of the city of Paris.

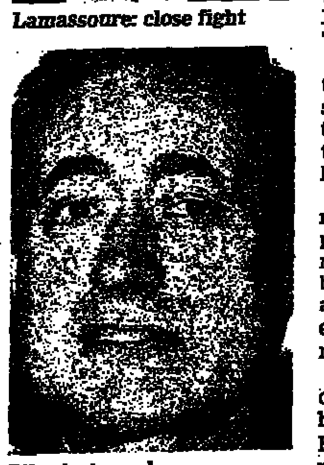
He was placed under formal investigation by a judge earlier this year in relation to a FFr200,000 ($34,000) report commissioned from his wife by an RPR local authority.

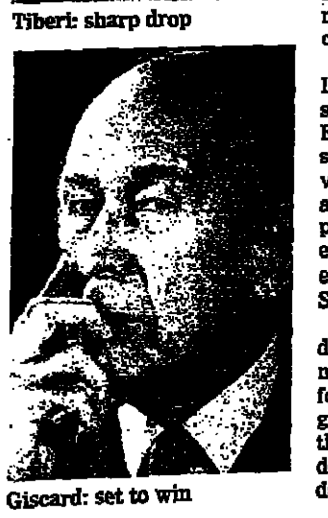
Mr Valéry Giscard d'Estaing, the centre-right UDF former president who has held his seat in Chamalières in Auvergne in central France, has also been pushed into an unprecedented run-off against a Green party candidate, although he seems certain to win.


Toubon: Chirac ally


Debré: fierce debate


Lamassoure: close fight


Tiberi: sharp drop


Giscard: set to win

Hopes and fears raised in Europe

By Wolfgang Münchau in Paris, Peter Norman in Bonn and agencies

French voters' surprise swing to the left has raised hopes as well as concerns across Europe.

The European Commission said yesterday that monetary union was on course for its scheduled start on January 1 1999, whoever won the second electoral round next Sunday.

Mr Yves-Thibault de Silguy, the economics commissioner, proclaimed that "there is no alternative" to the agreed timetable for Emu and the tough fiscal policies needed.

Speaking at the annual meeting of the Organisation for Economic Co-operation and Development, Mr de Silguy said the stability and growth pact, agreed by the EU summit in Dublin last year to rein in deficit spending, was there to stay.

Ahead of the French election, Mr Lionel Jospin, the French Socialist leader, said the stability pact constituted an aspiration expressed by EU governments, but would not be strictly binding on an incoming Socialist administration.

The comments prompted a clarification by Mr Jacques Delors, the former president of the European Commission and a fellow Socialist, who reaffirmed the commitment by the French Socialists to Emu and the Maastricht Treaty.

Italy's foreign trade minister, Mr Augusto Fantozzi, said yesterday the swing to the left should lead to further discussions about the Maastricht criteria.

He said his sense of the result so far was that "it puts attention on the internal opinion of the French being sceptical on Emu", and would "probably make evaluation of the criteria more flexible".

Germany's Social Democratic and Green parties hailed the success of the French left but there was a muted response from Chancellor Helmut Kohl.

A buoyant Mr Oskar Lafontaine, the SPD leader, said the success of the French Socialists, coming so soon after Labour's election victory in Britain, was an additional encouraging sign pointing to a change of government in the German general election at the end of September 1998.

Mr Kohl, conscious that a defeat for the French government could pose problems for greater European integration, said one must await the impact of the weekend's developments on next Sunday's vote.

NEWS: EUROPE

Neighbours differ on who should head European central bank

Paris, Bonn at odds over ECB

By Wolfgang Münchau, Economics Correspondent, in Paris

Preparing for Emu

One of the most intriguing questions about the post-single currency world is how the French and Germans will get along. In particular, how will the two countries bridge their differences over economic policy and over the role and organisation of the future European central bank (ECB)?

In the last few months, attention has focused on reports, largely in the German media, about an apparent attempt by France to press for its own candidate as head of the ECB, instead of Mr Wim Duisenberg, the Dutch central bank governor who is everybody else's favourite candidate to head the future central bank.

Few aspects of international diplomacy are laden with as much vanity as senior appointments to international institutions. But France's concerns about Mr Duisenberg go much deeper.

The dispute is not about the personality of Mr Duisenberg but about the politics of central banking.

France wants a candidate with much international political and economic experience. French officials acknowledge that Mr Duisenberg – a former European central banker of the year – is sufficiently experienced. He is even a French speaker, which gets round one potential French objection.

For the French, the question appears to be more whether Mr Duisenberg has the right kind of experience.

The French are looking for a multi-talented personality, whose antennas reach beyond the monetary and economic minutiae.

Mr Michel Camdessus, managing director of the International Monetary Fund, seems to have a profile much closer to what senior French officials have in mind for the presidency of the ECB. He has experience not only as a central banker but as a diplomat, and possesses the skills to strike a compromise between opposing political views.

The Germans, meanwhile, want a competent central banker to lead a team that would relentlessly and independently pursue the Maastricht treaty's prescribed goal of price stability. The Germans are also deeply suspicious of anything that smacks of political interference in monetary policy.

Mr Camdessus has been rumoured to be the French government's preferred choice for the job, although this is strongly denied by officials. A senior French official insists that France has not yet rejected Mr Duisenberg, and may not do so. There appears to be less suspicion of Mr Duisenberg himself than about the motives behind the push for his appointment.

The final decision on the ECB is not due until next May, giving him 10 months to allay French fears, after he takes over as president of the European Monetary Institute (Emi) in July.

Much crucial preparatory work has already been done, but there remain some delicate issues to be decided.

Among them is the degree of decentralisation of the European System of Central Banks. France favours a more decentralised system than the other EU countries. The French view appears consistent with the Maastricht treaty, which specifically calls for a decentralised system. But there are shades of grey – each involving central banking jobs.

A compromise appears likely on this. Mr Alexandre Lamfalussy, the outgoing Emi president, said in a recent Financial Times interview that the ECB would be sufficiently equipped to handle transactions if the need arose, but that the system itself would normally operate on a decentralised basis.

This could satisfy France's viewpoint that the European System of Central Banks – the ECB and national central banks – should not favour any particular financial centres, especially Frankfurt, the ECB's home base. Foreign exchange operations, and in particular open market operations, will continued to be carried out largely on the level of national central banks.

The real conflict is political, as both sides remain suspicious of each other's intentions, a suspicion that largely reflects the difference in central banking and political cultures.

French officials believe those differences over Emu may even widen if the governing centre-right coalition is dismissed in next Sunday's second round of parliamentary elections. But whatever the outcome, the whole row over who governs the future European central bank has already left a bad aftertaste in Germany. One German official remarked: "This is precisely the kind of thing that gives the single currency a bad name."

Emu: who's going to make it

J P Morgan Calculator May 26 1997

	Yesterday	1 week ago	4 weeks ago
Germany	100%	100%	100%
France	100%	100%	100%
Belgium	100%	100%	97%
Portugal	83%	81%	75%
Spain	80%	80%	70%
Finland	79%	79%	76%
Ireland	75%	76%	58%
Sweden	65%	62%	60%
Italy	62%	64%	52%
Denmark	47%	51%	46%
UK	44%	52%	36%

The Emu calculator reveals, real time, the probability of individual countries joining Germany in a monetary union in 1999 implied by financial market prices. Market probabilities are derived from the interest rate swaps market, in which investors swap floating-rate interest payments for fixed-rate ones.

The implied probability of Italy participating in Emu in 1999 can be calculated looking at where the spread between post-1999 lira and D-Mark swap rate lies, between the zero level implied by Emu and the level we would expect if Italy is not in Emu. Italy's non-Emu spread is estimated by currency strategists at J.P.Morgan using the pre-1992 correlation of the lira-D-Mark swap spread with similar spreads outside Europe.

Dutch in plea on jobs

By Peter Norman in Bonn

The Dutch presidency of the European Union yesterday urged Germany to sign up to the employment chapter proposed for the revised Maastricht Treaty, arguing that economic and monetary integration cannot be separated from convergence of labour markets and employment trends.

Mr Ad Melkert, the Netherlands minister for labour and social affairs, told a conference on EU reform organised by Germany's opposition Social Democratic party that it was "unthinkable" that the euro could be a strong and stable currency while unemployment in Europe was rising to 20m and beyond.

The proposed employment chapter in the new treaty would ensure that unemployment had an explicit place on the European political agenda. Mr Melkert forecast that employment would be one of the most important EU issues after the start of the single European currency on January 1 1999.

Following the election of Britain's Labour government, Chancellor Helmut Kohl's administration is the only EU government that has not decided in favour of an employment chapter in the treaty. Under pressure from its small market-oriented Free Democrat junior coalition partner, the government has argued that it does not want employment policy dictated from Brussels.

Bonn's stance was sharply criticised yesterday by Mr Oskar Lafontaine, SPD leader, who warned that his party would only vote for the Maastricht Treaty revision in both houses of the German parliament if "proposals for an active employment policy" were included.

Mr Peter Hausmann, the German government spokesman, said yesterday that Bonn believed employment policy should be handled at a national level and was waiting to see what emerged from the intergovernmental negotiations on the Treaty revision.

Mr Melkert appeared to address some of Germany's worries yesterday. He said employment policy would remain "primarily" a matter of national competence and that there was no need for large-scale job creation measures organised or financed from Brussels. But national efforts to boost employment could be better co-ordinated at the European level.

Maastricht goes to court

By Hilary Barnes in Copenhagen

A musician, a lawyer, a computer salesman and a member of the landed aristocracy are among 11 concerned citizens whose claim that Denmark's signature to the Maastricht treaty is in conflict with the country's written constitution opened before a district court here yesterday.

If, against expectations, the complainants win their case, the Danes will have to either review their membership of the European Union or amend their constitution.

A further concern for Europe is that the court case could delay Denmark's ratification of the revisions to the Maastricht treaty, currently the subject of negotiations at the EU's intergovernmental conference (IGC), but the prospect of a long delay by Denmark has receded since the 11 citizens were given permission by the Supreme Court last August to proceed with their case.

Lawyers said at the time that it could take four years for the case to be completed, but it is now expected that a final verdict can be expected early next year.

The hearings which began yesterday will last until mid-June, with a ruling from the court expected by early July.

But whichever side wins, the verdict will be sent by the losers on appeal to the Supreme Court, which is expected to hear the case in the autumn, handing down its verdict in early 1998.

Only at this stage will the Folketing – assuming that the government wins the case – proceed to call a referendum on the revised Maastricht treaty.

The complainants argue that the powers of the ministerial council exceed the limits allowed by the Danish constitution, and that, more broadly, the treaty has so reduced the power of the Folketing that it is incompatible with the constitution.

NEWS: WORLD TRADE

Thailand is betting on an export revival to save the country's battered currency. **Ted Bardacke** reports

LAST WEEK the danger of Thailand's economic dilemma became fully apparent. Economic policy makers appear to have ruled out what would be a painful devaluation of the baht. But their currency defence strategy – raising interest rates to astronomical levels and telling local banks not to sell baht to foreigners – could deflate the economy into an equally painful financial crisis.

The only way out, and the one Thai authorities are betting on, is a massive recovery in exports over the next year. Exports fell 0.2 per cent in 1996. A rebound would improve the country's current account deficit and keep economic growth high enough to avoid a rash of bankruptcies.

This would lead to resumption of large-scale capital inflows to the point where the country could lower interest rates again.

Thailand is in the midst of an uneven structural transition. For all the growth in the export of computer parts and electronics there are corresponding declines in exports by labour-intensive and commodities-based industries.

Meanwhile, expanding plant capacity and training an under-educated workforce in the country's growing export sectors take time. But the declining industries could pick up again quickly if upgrading programmes are successfully implemented.

Two export industries among Thailand's top 10 – computer parts and shrimps, the former booming and the latter in crisis – convey the same message. Those who invest in capital and education will prosper; those who do not will fail.

On the high-tech ladder

Computer parts overtook textiles as Thailand's number one export last year. Economists say this was an historic event – as when textiles overtook rice two decades ago.

Thailand now competes with Taiwan and Malaysia in high-tech "cleanrooms" rather than with Vietnam and Indonesia in low-wage "sweatshops".

Seagate, the world's largest manufacturer of computer disc drives, is at the heart of this transformation.

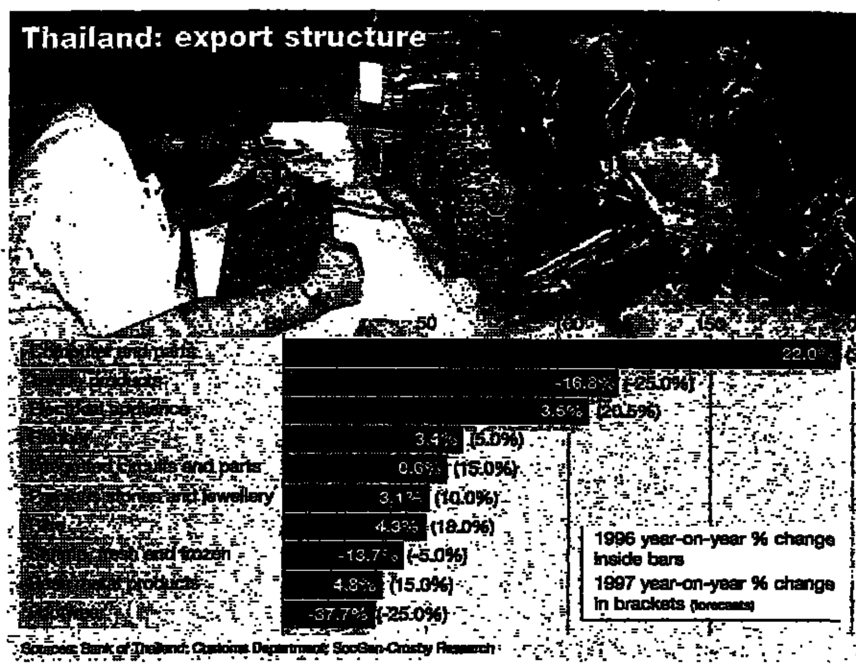
With 42,000 employees it is Thailand's largest private sector employer and on its own accounted for 4 per cent of the country's total export earnings last year. Its six factories operate 24 hours a day, seven days a week.

When International Business Machines, the world's largest computer company, was looking for a place to double its own production of hard discs, previously concentrated in Japan, it never seriously considered anywhere but Thailand.

IBM's investment of $560m in two new factories, expected to generate $2bn a year in export revenue, should be ready by early 1998.

"With new product development, the life of a product is only about one year," says Mr Norio Okumura, director of storage manufacturing and development at IBM Japan.

"When we first looked at Thailand in 1988 we didn't have so much confidence that we could change cycles so quickly. Now there is a structure in place and we have that confidence. Thailand is the place to make disc drives."



World demand for disc drives grew 18 per cent last year and Dataquest, an industry forecaster, expects it to expand 26 per cent this year.

Yet this dependence on the world market is just one of the constraints facing Thailand's booming high-tech industries, as growth appears to come more from volume increases than from the introduction of new technologies.

"Our expansion in Thailand has come from internal growth and acquisitions," says Mr Javed Chaudhary, vice president and general manager of Drive Operations in Thailand. "It's foolish to move production processes around the world. The technical support structure is just too hard to duplicate."

There is a larger problem for Thailand. Companies' production lines are still very labour-intensive, but the mostly female labour must have at least a ninth-grade education, under a law introduced in Thailand last year but still largely unimplemented, thanks to a shortage of teachers and problems at the education ministry.

Seagate is already facing difficulties hiring enough workers for its new facility in Korat, built in the country's impoverished north-east region precisely to get away from the labour constraints around Bangkok.

Besides education, the other way out of this labour shortage is to move even higher up the value-added ladder, where investments of $1bn give rise to only about 1,000 well-paying jobs.

So far Thailand has failed, as evidenced by the crumbling plans of the Alphatec Group to push the country into the manufacturing of silicon wafers, the basic building blocks for computer chips.

This kind of business has flourished in Asia only with government financial support, something the Thais have yet to muster.

Until that happens, Thailand will be stuck in the middle of the high-tech food-chain, reliant on everyone else and never large enough to control its own destiny.

A sea change in shrimp farming

Over the past decade, Thailand became the world's largest exporter of farmed shrimp and helped the CP Group become Asia's leading agribusiness conglomerate.

Yet farmers rushing to get in on the boom destroyed much of the country's pristine coastline, tearing up half the country's mangrove forests for aquaculture use. Now the country is paying the price.

Two viruses are attacking Thai shrimp. Known as white spot and yellow head, the diseases kill shrimp before they can reach harvesting size. As a result, Thai shrimp production has fallen 10 per cent annually for each of the past three years.

"I keep trying to produce," says Mr Vichien Jaidee, whose small four-hectacre farm along the Gulf of Thailand shows signs of its former glory in boasting a satellite dish, several mobile phones, a fancy 4x4 pickup and a 100-gallon exotic fish tank. "But usually after a few weeks the shrimp die and I have to drain the whole system and bring in new seawater and try again."

Mr Vichien's primitive farming technique is to blame for Thailand's problems. He and most other farmers simply bring in ocean water, produce shrimp and then drain their ponds, by this time full of waste and chemicals, directly back into the sea.

With few wetlands left to filter the drained water, this waste has turned coastal marine life into breeding agents for the viruses, agents which sully the ponds when they are filled anew.

Small farmers, the environment and Thailand's export performance are not the only victims of white spot and yellow head.

Food processors who invested to prepare shrimp for export, big investors who established industrial-size farms and the CP Group itself, are also feeling the pain. Together they might just save the shrimp industry from oblivion.

Lacking raw material for their food factories, processors are starting to take over ravaged farms and employing a "closed" production technique limiting the amount of contaminated sea water used and recycles waste water. Success, if it comes, will not be immediate.

"Over the next one or two years we will try to fix the problem," said Mr Joe Lee, a shrimp production expert experimenting with a closed system for Contessa, a Taiwanese company with two under-utilised Thai processing plants. "If we can, Thailand still has huge potential."

One obstacle to the closed system is cost. Infrastructure costs are 30 per cent higher than for a traditional system, not including the extra land needed, which makes it prohibitively expensive for many.

Large-scale investors also rely on bank financing, which gives them only a couple of four-month production cycles to experiment with before interest payments start coming due, making upgrading risky.

Yet unlike small farmers, these investors are likely to educate themselves and change their production techniques – once they have the money.

CP is also getting into the act. At its cutting-edge Shrimp Culture Research Centre, Dr Boonsirm Withyachumnarnkul has developed additives to water and feed that help stave off white spot disease in some cases and is helping turn shrimp waste into fertiliser.

"We are trying to help farmers survive for a little while so they can move to a new system," says Dr Boonsirm.

Yet despite its power over the industry, CP doesn't control the production process and will still sell feed to and buy production from any producer.

This includes farmers who have moved inland to Thailand's central plains to escape the contaminated sea. These farmers, using concentrated saltwater, drain their dirty ponds directly into rice fields, thus threatening the ecological balance that has made Thailand the world's largest exporter of rice.

EU drops complaint on Seoul 'frugality' campaign

By Guy de Jonquières in Paris

The European Union has dropped its threat to challenge South Korea's "frugality" campaign in the World Trade Organisation, following actions by the Seoul government to ensure that the campaign does not discriminate against imports.

However, Sir Leon Brittan, the EU trade commissioner, told Mr Chang-Yeul Lim, Korea's trade and industry minister, at a meeting in Paris yesterday that he would continue to monitor the Korean policy and would be ready to respond to complaints by European companies that they were being unfairly treated.

EU officials said they were satisfied that Seoul had "bitten the bullet", after Sir Leon wrote to the Korean government two months ago saying the frugality campaign – which seeks to discourage consumption of luxuries – violated WTO rules.

Seoul on May 9 emphasised the campaign should not target particular types of products or impede trade. It instructed customs and tax officials not to discriminate against imports and appointed an ombudsman to hear complaints by foreign companies.

■ US and European trade officials today resume efforts to salvage talks suspended at the weekend on so-called "mutual recognition agreements" designed to boost transatlantic trade in pharmaceuticals, information technology, telecoms and pleasure craft. President Bill Clinton and EU leaders in December committed themselves to MRAs in time for tomorrow's summit of the US leader and his EU counterparts.

MRAs would allow EU qualifying bodies to perform certain procedures to approve entry into the US market, and vice versa.

NEWS: THE AMERICAS

Left stakes its claim to Mexico City

By Daniel Dombey in Mexico City

Mr Cuauhtémoc Cárdenas, the standard-bearer of the left, has significantly strengthened his claim to the country's second most important electoral post, the governorship of Mexico City, after an unprecedented triumph in a televised debate over a rival from the ruling Institutional Revolutionary Party (PRI).

While the new post will have limited powers and only a three year term, it will give its incumbent enormous national prominence and could be used as a launching pad for the presidency.

A third candidate, Mr Carlos Castillo Peraza of the centre-right National Action party (PAN), is also standing in the July 6 poll, along with a host of minor parties. But Mr Castillo was excluded from the weekend debate by Mr Cárdenas, the frontrunner for several months. Three years ago a PAN candidate mauled Mr Cárdenas in a presidential debate.

A poll taken before the debate gave Mr Cárdenas a 44 per cent popularity rating among voters, compared with 22 per cent for Mr Castillo and 21 per cent for Mr Alfredo Del Mazo, the ruling party candidate.

One poll after the debate indicated 73 per cent of voters regarded Mr Cárdenas as the victor. In another poll 51 per cent of voters felt he won the debate.

There are a number of elections on July 6 besides Mexico City's governship. The most important is for the lower house of Congress and the PRI is likely to get an overall majority.

Much of what the two main candidates proposed in the debate was similar, and similarly sketchy.

But the encounter was distinguished by their mutual attacks. Mr Del Mazo accused Mr Cárdenas of having passed a $400,000 apartment to his son just days before declaring his assets and of having proposed an education bill that violated religious freedom when governor of Michoacán state a decade and a half ago.

Mr Cárdenas said when Mr Del Mazo was a governor himself he pushed through a bill that threatened detractors with imprisonment.

"They seemed to be competing to see who was the worst governor in the 1980s," said Mr Gonzalo Altamirano, a party official of PAN, the second largest party nationally. In the past, such exchanges would probably not have been a problem for the PRI, long accustomed to winning every election it contests.

But the disastrous economic slump of 1995 and the corruption scandals still swirling around the government of former President Carlos Salinas have given Mr Cárdenas an edge.

He is helpfully remembered as the most implacable opponent of the now disgraced Mr Salinas.

Argentina seeks suitors for its 'uglies'

Ken Warn senses a desperation to sell postal service and mortgage bank

The headquarters of Argentina's state postal service is an impressive neo-baroque pile that looms over downtown Buenos Aires.

But its opulent exterior and plush, echoing interior, conceal a mundane reality – it is deep in the red and up for sale. The postal service, known by the acronym Encotesa, is part of the latest wave of privatisation that includes the national mortgage bank and the country's main airports.

The government is also eventually looking to the private sector to finish and run the monumental Yacyretá hydro-electric scheme it shares with Paraguay, and to take over its three nuclear energy plants, one of them unfinished.

The sell-off programme, launched by president Carlos Menem's government in the early 1990s, has transferred public utilities, telecommunications and swathes of industry to the private sector. But the latest phase is being pushed forward in the face of stiff political and technical difficulties.

"They are certainly the rump of the uglies, with the exception of the airports," said Mr Christopher Ecclestone of the brokers, Interacciones. "You can see why they left them until now."

Most crucial to the government in the short term is the sale of the Banco Hipotecario Nacional (BHN), the national mortgage bank. Founded in 1886, BHN is Argentina's biggest mortgage lender.

The government plans to divide most of the $3bn it hopes to raise from the sale between national and provincial public works schemes. This has provoked opposition charges that the sell-off is aimed at raising cash ahead of October's mid-term elections and the 1999 presidential race.

Mr Roque Fernandez, the finance minister, maintains that the sale of BHN is to make the mortgage and housing markets more dynamic, and to create jobs. But the opposition charges that government moves to secure a bridging loan of up to $2bn, to be paid back with the sale's proceeds, are intended to allow it to get spending programmes under way ahead of the October polls.

BHN, with a book value of $2.7bn, has been profitable since a restructuring in the early 1990s. It has more than 30 per cent of Argentina's under-developed mortgage market. However, almost 24 per cent of outstanding loans are non-performing, down from a peak of almost 33 per cent in mid-1995.

"We still have work to do cleaning up the bad loans before we bring the bank to market," said Mr Pablo Rojo, BHN president, "but it will not have an impact on the net value of the bank."

Argentine President Carlos Menem (right) arrived in Germany yesterday for a three-day state visit that will include the opening of a new ambassador's residence in Berlin and a private dinner with Chancellor Helmut Kohl, AP reports from Berlin. German President Roman Herzog praised Mr Menem's role in Argentina's political and economic stability. "Under your leadership, your country has followed the precepts of the social market economy brand like no other and has witnessed an enormous boom," Mr Herzog said.

Another possible worry for investors is that a privatised BHN may also lose legal privileges such as the right to repossess properties without recourse to the courts.

A bitter debate last month ended in slaps, scuffles and a hail of insults on the floor of the lower house of Congress as opposition deputies fought an unsuccessful last-ditch battle to derail the sell-off.

But the battle outside Congress over the sale of the airports and postal system has been even more heated.

Mr Domingo Cavallo, former economy minister, has alleged both sales were being structured to entrench the monopoly interests of postal entrepreneur Mr Alfred Yabrán.

The sell-off plans were pushed through by decree by President Carlos Menem after Congress failed to agree on how to proceed.

Mr Cavallo alleges that Mr Yabrán secretly controls a network of companies that dominates Argentina's private postal operators and some airport services which are already under concession, such as duty-free shopping. Mr Yabrán has angrily denied the charges.

Mr George Camarci, managing director of UBS Securities, financial the adviser to the government on the airport sale, said that it was being handled with complete transparency.

"There has to be fairness for all potential bidders."

The government aims to sell a concession to run 28 airports, including the Buenos Aires international and national airports, for the next 30 years, with a possible 10-year extension. A further nine airports could be included subject to the approval of provincial governments.

It hopes the winning bidder will pay an annual rent of $40m-$50m, but will also invest at least $1bn in infrastructure improvements over the lifetime of the concession, with up to half the spending in the first five years.

British, US, Canadian, French, Italian, Dutch and Spanish companies had expressed an interest in the sale, Mr Camarci said.

An international roadshow to promote the sale, due to completed by September, winds up in Germany this week.

Nonetheless, a group of opposition deputies continues to harass the government over the sale and is seeking to have it declared unconstitutional.

Encotesa is also in dire need of investment. It hopes the winning bidder will invest $25m in the service every year for the first 10 years of a 30-year concession, while fighting off competition from the aggressive private postal companies which sprang up after deregulation in 1993.

The company, with less than 40 per cent of the market, had an estimated operating deficit of $40m last year, little changed from 1995.

Nonetheless, Mr Arturo Puricelli, Encotesa president, is confident that a privatised service will be more efficient and be able to offer a wider range of services, including banking.

"It is not exactly a gem," said Mr Ecclestone. "But a decent international operator could turn it around."

"Uglies" or not, the government shows no sign of wavering in its determination to push the sales through.

AMERICAN NEWS DIGEST

Spielberg film a record beater

Steven Spielberg's dinosaurs trampled box office records over Memorial Day weekend in the US as *The Lost World: Jurassic Park* opened with an estimated $85.7m for the four-day period, according to studio estimates yesterday.

The special effects extravaganza beats the previous record held by *Mission: Impossible*, which earned $56.8m over the Memorial Day holiday last year.

Its three-day total (Friday to Sunday) of $69.1m beats the $52.78m that *Batman Forever* earned in its first three days in 1995. The film's $22m opening on Friday also beat the $20.1m opening for *Batman Forever*. *The Lost World: Jurassic Park* features Jeff Goldblum, who battles against raging velocoraptors in a loose adaptation of Michael Crichton's *The Lost World*.

Reuter, Los Angeles

Mexican trade surplus down

Mexico recorded a trade surplus of $109m for April, according to preliminary figures at the weekend compared, with $793m in the same month last year. Exports of $9.1bn were 15 per cent up on last year, but imports jumped 27 per cent.

The most dynamic exporters were Mexico's *maquiladoras*, or customs-exempt assembly plants, which saw sales increase by 21 per cent on April last year. The Mexican government said part of the reason for the small surplus was delays in imports caused by the Easter holiday. The delay meant that goods normally imported in March were imported in April and had helped push up the March surplus to $636m. In addition, falling oil prices pushed petroleum sales down 4 per cent on April 1996 to $943m.

Daniel Dombey, Mexico City

Venezuela fish row flares up

A dispute between Venezuela and Trinidad and Tobago over fishing rights in the Caribbean waters separating the two countries has flared up again despite recent talks to diffuse the standoff.

Trinidad and Tobago has threatened to take the issue to the Organisation of American States (OAS) at a meeting in Peru after six of its fishing vessels were detained by Venezuela's coastguard last week. Venezuela's foreign ministry denied there was gunfire involved, but said that one of the vessels tried to escape. Venezuela says fishing boats from Trinidad and Tobago repeatedly violate its maritime sovereignty.

Mr Miguel Burelli Rivas, Venezuela's foreign minister, did not recommend his colleague from Trinidad and Tobago "take the issue to the OAS or the United Nations, as Venezuela will not accept any non-bilateral foreign intervention". The two countries are negotiating a two-year fishing rights treaty to replace one that expired in 1995.

Raymond Colitt, Caracas

St Lucia banana shake-up

Mr Kenny Anthony, the newly elected prime minister of St Lucia, is to restructure the island's banana industry, the largest in the Caribbean. Mr Anthony, whose Labour party won Friday's election on the eastern Caribbean island of 140,000 people, said restructuring the industry was important to turning around the economy, which contracted by 1.9 per cent last year. The Labour party won all but one of the 17 seats. Mr Vaughan Lewis, former prime minister and leader of the United Workers party, lost his seat.

Canute James, Kingston

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NEWS: ASIA-PACIFIC

Food accord lifts hopes for Korea talks

North and South agree on aid shipment for hunger victims

By Tony Walker in Beijing and John Burton in Seoul

Red Cross officials from North and South Korea yesterday agreed on a shipment of 50,000 tonnes of food aid to help the hunger-stricken North cope with the looming threat of famine.

Separately, the European Union will contribute $63m in food aid and health assistance for North Korea, making it the single largest contributor to a humanitarian relief effort being conducted by the United Nations.

The UN has sought nearly $100m in its latest appeal for food aid to the North but the response has been limited, due to Pyongyang's refusal to allow international relief workers unrestricted access and its reluctance to join proposed peace talks.

The EU donation will purchase 155,000 tonnes of grain, about a tenth of North Korea's request for international aid this year.

The emergency deal brokered by Red Cross officials from the North and South is the first such agreement since 1985 and raises hopes of progress towards four-way talks aimed at bringing lasting peace to the Korean peninsula.

The US and South Korea proposed the talks with North Korea, also involving China, to resolve the military standoff along the 38th parallel, which divides North and South. The 1950-53 Korean war ended without the signing of a peace treaty.

South Korean Red Cross officials said the food aid agreement would provide the "momentum to increase mutual co-operation between the two Koreas on the basis of humanitarianism".

A North Korean Red Cross official said the promised aid was "quite small in comparison with the total effect of the disaster". "I cannot say it's enough, but anyhow it will help, this or that way," he said.

International relief agencies estimate that 4.7m North Koreans, about a fifth of the population, face starvation this summer from food shortages caused by devastating flooding in 1995 and 1996.

North Korea had asked South Korea's Red Cross for 100,000 tonnes of food. The South Koreans initially offered 40,000 tonnes.

South Korean officials expressed satisfaction over the North's agreements to allow the food aid to be clearly labelled as having come from South Korea.

The North also agreed to open more delivery routes, but it would not allow aid shipments through Panmunjon, the town which straddles the border.

Representatives of the International Committee of the Red Cross (ICRC), which has been monitoring the North-South discussions, said the South Korean food aid, mainly corn, would help feed about 500,000 people. The first shipment of 15,000 tonnes is on its way by train from China.

An ICRC official said he hoped South Korea's gesture would "inspire other Red Cross societies and also other governments to come forward with more assistance because aid is needed".

The EU donation is the latest sign of Brussels' increased diplomatic role involving Korea. It also recently signed an agreement to join the Korean Peninsula Energy Development Organisation, which is providing new light-water nuclear reactors as part of a promise by Pyongyang to freeze its suspected nuclear weapons programme.

Mr Tue Rohrsted, the EU ambassador to Seoul, said the contribution was necessary to promote stability in North Korea.

Drive in Japan for greater security role

By Gwen Robinson in Tokyo

The growing push in Japan to overhaul the country's 1947 pacifist constitution and expand its international security role has gained momentum, with the setting up of the first parliamentary group openly to support revision of the constitution.

The non-partisan group of nearly 300 parliamentarians held its first meeting last Friday in Tokyo, but left-wing politicians have already boycotted the group, warning any revisions could revive pre-war militarism.

The move comes at a crucial time, when Japan and the US are completing a joint review of their bilateral defence arrangements under the US-Japan Security Treaty. An interim report next month will urge Japan to take a more active role in regional security and to support US forces in any regional conflict, according to a draft report leaked to Japanese media.

In addition, Japan has been lobbying for a permanent seat on an expanded United Nations Security Council and has got US support for its bid.

The government, meanwhile, has just completed a draft bill that would ease restrictions on weapons-usage by Japanese troops involved in international peacekeeping operations. The bill will be submitted to parliament in a special session this autumn.

Recent opinion polls and public statements by business and political leaders suggest that such developments have contributed to growing opinion in favour of constitutional reform.

"There is a wide gap between constitutional provisions and reality," said Mr Taro Nakayama, a former foreign minister with the governing Liberal Democratic party and chairman of the parliamentary group. "We aim to address all questions about this gap."

After the group's inaugural meeting, Mr Yasuhiro Nakasone, a former prime minister and well known proponent of expanding Japan's military capabilities, said the group would formalise its role by presenting a bill this week in parliament to establish a standing committee on constitutional issues.

Mr Nakasone hailed the plan as "epoch-making". The proposal, however, is bound to provoke fierce debate between conservatives and leftwing groups, including Japan's socialist and communist parties.

The group does not intend to propose specific amendments to the constitution, but will focus on generating further discussion about a wide range of provisions, not just the security-related Article 9, said Mr Koichi Kato, LDP secretary-general.

Under current laws, constitutional amendments need a two-thirds majority in both houses of parliament, as well as approval by a simple majority in a national referendum.

Leading manufacturer's move highlights growing importance of electronic commerce in Japan

NEC to use internet to order supplies

By Michiyo Nakamoto in Tokyo

NEC, one of Japan's leading electronics manufacturers, is to begin using the internet for about 90 per cent of its procurement activities worth Y2,000bn ($17.3bn) a year, in a move that highlights the growing importance of electronic commerce in Japan.

The switch to use of the internet for procurement activities represents a big move by NEC, which currently uses the telephone, mail and private leased lines for procurement-related exchanges with its suppliers.

Japanese companies have been slow to make greater use of the internet, compared with those in the US, in part because of the slower spread of computers in offices and the traditional importance of personal contact in business deals.

However, the use of the internet has mushroomed in Japan in the past year. The Ministry of Posts and Telecommunications reported recently that cyber businesses in Japan aimed at consumers grew from about Y700m in fiscal 1995 to Y28.5bn last year.

The figure does not include inter-company transactions, an area for which statistics are not available at the ministry.

The Japanese market for independent cyber businesses, which comprises 8 per cent of world share, is second only to the US market, which at Y268.7bn, dwarfs all other markets, the ministry said.

Most of these businesses were small, individually run operations and only 20 per cent of those that responded to the survey were profitable, while 17 per cent managed to break even.

One-fourth of the businesses had headquarters overseas, highlighting the potential the internet offers foreign companies, which have often found Japanese markets difficult to break into.

> Japanese companies have been slow to use the internet because of the slower spread of computers in offices and the traditional importance of personal contact

NEC is developing an advanced information system which it will use to carry out a large part of its procurement activities, ranging from procurement notices to, eventually, settlement on the internet.

The system, which is scheduled for completion next spring, will be based on NEC's own technology and will involve 400 of its suppliers in Japan and overseas, the company said.

It said it had decided to begin using the internet since it was easier for new suppliers to join than its private leased line system, which requires specialised software.

The use of the internet was also expected to cut costs of linking with suppliers on-line, NEC said.

It has been conducting experiments in electronic commerce since last autumn and decided that in order to improve its system, it needed actually to use it and gain first-hand experience of any problems that might arise, the company explained.

Japanese industry has been working on the development of a domestic version of "secure electronic transactions" (SET), an international industry standard designed to safeguard electronic commerce.

Fujitsu, the computer and electronics company which is also a leading network services provider, has been conducting transactions through electronic data interchange with its top 10 buyers and suppliers.

Fujitsu expects that next year, when the Japanese version of SET becomes available, more companies will move to electronic commerce in order to cut costs.

ASIA-PACIFIC NEWS DIGEST

Investment in China slows

Foreign investment in China is expected to be down in 1997 to less than $40bn, suggesting that investment flows have peaked for the time being. Mr Li Xiaoxi, a researcher at the State Council's Development Research Centre, forecast that utilised investment would reach $30bn-$40bn, compared with last year's record $48bn.

"Although the figure is smaller than that for 1996, it is still large for China's economic development," Mr Li was quoted as saying by the official Xinhua newsagency.

China had attracted $177.3bn in actual investment by the end of 1996, but growth has been slowing since the early 1990s when investment more than doubled.

Utilised investment rose by 12.2 per cent last year, but contracted investment was down about 20 per cent to $73.2bn. Utilised investment reached $4.66bn in the first two months, up 1.5 per cent on the same period last year.

"Slower rates of investment are expected to continue over the next few years," said a report prepared by a foreign embassy in Beijing. "Rising costs in coastal regions are deterring investment. The poor infrastructure and bureaucratic hurdles of China's less developed interior still present significant barriers to investment in these regions."

Tony Walker, Beijing

Thai projections scaled down

Thailand's central bank revised downward its 1997 projections for economic growth, export performance and current account deficit in a chaotic day which saw only 33 minutes of trading on the Thai stock market because of a computer glitch.

The Bank of Thailand said economic growth this year would be 5.9 per cent, export growth 7.2 per cent and the current account deficit 6 per cent of GDP, down from earlier projections of 7.1 per cent, 7.7 per cent and 7.9 per cent respectively. Many economists believe the new figures are optimistic.

The bank also said it was changing its method of calculating commercial bank lending rates, freeing them from their link with deposit costs. Banks will be allowed more discretion in charging different rates to different clients. After the announcement, Bangkok Bank and Thai Farmers Bank cut their prime rates by 25 basis points to 12.75 per cent.

William Barnes, Bangkok

Progress on HK aircraft

Cathay Pacific, Hong Kong's main airline, should see its fleet of Airbus A-330-300s operational and airborne within three weeks, Mr Roland Fairfield, engineering director, said yesterday.

The airline grounded 11 A330-300s on Saturday because of problems with their Rolls-Royce Trent 700 engines, prompting the cancellation of over 40 flights. Dragonair, Hong Kong's other airline, has also grounded four A330-300s fitted with Trent 700 engines.

The decision to ground the aircraft followed a number of incidents in which pilots shut down an engine in flight. The latest case came last week when a Dragonair Airbus made an emergency landing in the Philippines en route to Malaysia. Cathay said Rolls-Royce engineers had presented a modification proposal involving the revision of the oil feed arrangement to a bearing in the engine gearbox.

John Ridding, Hong Kong

Burma opposition man jailed

Burma said yesterday it had sentenced a member of opposition leader Aung San Suu Kyi's National League for Democracy (NLD) to four years in jail on a charge of falsifying documents. Myo Khin, 39, NLD secretary for Yankin township in Rangoon, was arrested on May 12 and charged with fraudulently altering a family registration list and citizen registration card, the Burmese government said.

The government statement said Myo Khin's arrest and sentence had nothing to do with an NLD gathering planned for today to celebrate the anniversary of the NLD's landslide victory in the 1990 election which was not recognised by the ruling State Law and Order Restoration Council (Slorc).

Reuter, Rangoon

Australian banker on insider trading charge

By Nikki Tait in Sydney

The Australian Securities Commission (ASC) yesterday filed a charge of insider trading against Mr Simon Hannes, an executive director of Macquarie Bank, the listed Australian investment bank, over the purchase of options in TNT.

TNT, the transportation group, was taken over by the Dutch KPN group for A$2bn (US$1.5bn) last year, with Macquarie Bank advising on the transaction.

Mr Hannes has already been charged with two breaches of the Financial Transactions Reports Act in relation to the same matter. But his lawyers have indicated that he will plead not guilty and the high-flying executive, who is in his late 30s, has been released on bail.

Yesterday, however, the ASC laid the new charge and gave further details of its allegations.

It claimed that in mid-September Mr Hannes – using the name "M. Booth" – instructed a stockbroker at Ord Minnett to buy TNT call options at a cost of almost A$90,000. In the wake of KPN's bid in early October, the value of the options increased to around A$2m.

The ASC went on to allege that Mr Hannes had talked to someone in the bank's corporate advisory department, who was working on the takeover in the previous July and was told that the valuation range on TNT shares was over A$2.

It also claimed that Mr Hannes attended meetings where Macquarie's fee for "Project Tennis" – the bank's name for the KPN/TNT takeover - was discussed.

Mr Hannes was on leave from the corporate advisory department from August, but the ASC now alleges that he retained his magnetic access key and on six occasions in August and September entered the offices late at night. The ASC also claims that documents relating to the TNT takeover were not in a locked filing area or locked cabinets.

The ASC added that it had no suspicion that anyone else from Macquarie Bank was involved in any of the matters alleged against Mr Hannes.

The abnormally heavy options trading was noticed at the time of the bid, prompting the ASC to seek an injunction over the funds in question, which remains in place.

In a voluntary interview with the authorities five months ago, Mr Hannes indicated that he was acting on behalf of an unidentified individual who he said was involved in an investment syndicate with him.

According to portions of the interview made public by the ASC, Mr Hannes said that he never talked to Mr X about Macquarie's work on TNT, and that "if he had any knowledge of that, it wasn't through me".

Sino-Singaporean industrial park idea starts to lose some of its shine

Admiration for Singapore model is tempered by reality, says **James Harding**

When President Jiang Zemin met Singapore's prime minister, Mr Goh Chok Tong, earlier this month, the Chinese leader made a point of praising the success of the China-Singapore Industrial Park in Suzhou.

But, he concluded, there would be no more such Singaporean parks in China.

The decision was the first official indication that the project, which opened three years ago in a blaze of generous publicity, had perhaps lost some of its shine.

At the 70sq km site in Suzhou, an historic town just west of Shanghai, some factories have started production and construction is progressing on others, but most of the area remains a wasteland.

Total investment to date has been $2.5bn, substantially lower than initially forecast, and the Singaporean managers of the park have scaled back forecasts of investment from $1bn to $600m-$700m for 1997.

The management company is a 65:35 joint venture between a consortium under the umbrella of Singapore's Economic Development Board (EDB), parents of other Singaporean townships operating throughout Asia, and a group of Chinese companies. It is making a loss.

Revenue from the 89 projects that have committed themselves to the Suzhou park since 1994 has been $180m against total investment and working costs of about $290m. Most of the infrastructure for the first 8sq km district is in place, but as yet only 3sq km of land has been leased.

Mr David Lim, chief executive of the managing company, said: "We have not published any data on profits and loss, because we do not have a lot to crow about... but we are not worried. When we got into this, we recognised this would be a long-term play."

Jiang Zemin (left): praised China-Singapore Industrial Park in Suzhou when he met Singapore's premier Goh Chok Tong, but said there would be no more such parks in China

He forecast profitability after at least another three years.

He accepted that enthusiasm may have slipped, but largely because the initial euphoria was misplaced: "When something is new, there is a certain halo around the idea, but that halo means the idea has not really matured... We have a better understanding of China now than we did three years ago."

When the project was launched in 1994, expectations were certainly high. The park was the symbol of the special bilateral relationship between China and Singapore and had the blessing of Singapore's senior minister, Mr Lee Kuan Yew, as well as support at the highest levels in Beijing.

Such was the Chinese enthusiasm that the local government ceded majority control to the Singaporean side – the only place in China where a foreign government body has been given such a free hand.

At the time Mr Zhang Xinsheng, mayor of Suzhou, explained that Beijing's support reflected its preference for the example of Singapore's disciplined development to the laissez-faire Hong Kong model.

The Chinese government would monitor the success of the industrial township, with a view to replicating the formula elsewhere in China, Mr Zhang said.

A few years on, Mr Zhang – like the Chinese leadership – is maintaining that the project has had "a successful start", but is realising that China "cannot transplant the Singapore experience... We have to proceed from our own reality."

Mr Goh says Singapore does not want to dilute its attention from the Suzhou project by opening other parks in China.

So, what has changed? In part, China's admiration for the Singaporean model of prosperity and tight social control has been tempered by reality. More importantly, the Singaporeans in Suzhou, despite the best political patronage, have found that China is a tough place to do business.

Western observers suggest today's muted enthusiasm for the park is in part national pride.

"Chinese officials are asking themselves: what does a city state of not even 3m people have to teach China, it is the size of one of the suburbs of Shanghai," said one diplomat.

One European diplomat said China had scaled back its ambitions for the Singaporean park, simply because "the idea of recreating Singapore in its entirety has come to look very far-fetched when you measure the model up against the size of China's problems."

Mr Lim insisted it was never the Singapore EDB's idea to offer a model "for replication, as much as an influence", rejecting the notion that the Suzhou park's slow progress had anything to do with development ideologies.

Instead, it was simply a story of the unpredictable world of business in China.

Last year, investment fell to half the rate expected, as only $500m was committed against a target of $1bn. This was because "the Chinese changed the rules", according to Mr Lim.

From April 1996, foreign companies were suddenly required to pay tax on imported capital equipment, raising investment costs and halting the flow of new companies coming to the Suzhou park for six months.

What made things worse was that the free trade zone in Pudong, the former mudflats in east Shanghai, was exempt from the tax, making a rival park a far more attractive location for investment.

The growth of alternative, often cheaper, industrial parks, notably a Suzhou municipal district on the opposite side of town, has also made life more difficult than expected for the Singaporean park.

Nevertheless, those companies that have set up shop in the China-Singapore township swear by it.

"They save you alot of headaches in administration and have created a comfortable business environment," said a representative of Harris Semiconductor, one of more than 20 investors from the US.

"In China, electricity is not a given right, but at the Suzhou park the infrastructure is reliable. It gives a company a sense of security. You know you will be open for business tomorrow," said the general manager of another US high-tech company.

Given such praise, Mr Goh probably has good reason to "think the most difficult period is over".

As he put it to the Singaporean press: "We have two sets of people looking after the baby, one used to looking after the baby in the Chinese way and the other in the Singapore way. And we are trying to teach them how to handle the baby in the Singapore way."

China may lead world output by 2020

By Guy de Jonquières in Paris

OCDE OECD

China could be the world's biggest economy by 2020, with about half the combined annual output of the economies which today make up the industrialised world, according to a study by the Organisation for Economic Co-operation and Development.

The study says that if market reforms continue, developing countries could raise real gross domestic product per head 270 per cent by 2020. Their share of world output would rise to 60 per cent from 40 per cent in 1995, exceeding that of industrialised nations and making them a driving force in the world.

More than a third of world output could be accounted for by China, Russia, India, Indonesia and Brazil in 2020, while output per head in several fast-growing east Asian economies and in Argentina and Chile could equal or exceed the present average for the OECD's 29 existing members.

But OECD countries could still expect to increase their GDP per head by 80 per cent by 2020, bringing it to double the level projected for developing economies at that time.

The OECD says that if countries continue to press ahead with domestic reforms and liberalise international trade and financial flows the unemployment rate in Europe could fall to about 5 per cent by 2020.

However, the study finds some OECD countries showing signs of a backlash against globalisation, which is sometimes blamed for creating persistent unemployment, widening income inequality and de-industrialisation.

If governments do not liberalise and reform further, the study says annual growth rates in OECD countries could fall to about 2 per cent, from an average of almost 3 per cent in the past 25 years. Productivity would deteriorate and poverty and economic marginalisation would remain a big problem for many developing countries.

Another OECD study forecasts that more aggressive and better co-ordinated regulatory reform would increase GDP in the more heavily regulated OECD economies by between 3 per cent and 6 per cent, while boosting productivity, cutting prices and stimulating innovation.

The OECD studies were strongly criticised by the organisation's trade union advisory committee. Mr Rodney Bickerstaffe, its head, accused the OECD of promoting "tried, washed-out 1980s" remedies and said the single-minded pursuit of globalisation risked triggering a popular backlash.

The unions also called on South Korea, the OECD's newest member, to amend further its controversial labour laws to bring them fully into line with the International Labour Organisation's standard for freedom of association.

UK marks out agenda for social policy

By Wolfgang Münchau in Paris and Robert Chote in London

The British government yesterday outlined an ambitious agenda for social policy at the annual meeting of the Organisation for Economic Co-operation and Development, the Paris-based think-tank for industrialised countries.

Mrs Helen Liddell, economic secretary to the Treasury, told fellow ministers that the UK would put skills at the centre of its economic growth strategy. She also underlined Labour's commitment to implementing a minimum wage.

"The key to [labour market] flexibility is not lower standards, it is a higher skilled workforce," she said.

While the policies are not in themselves new, the strong emphasis on social cohesion and social inclusion as a centrepiece of economic strategy marks a radical departure from the previous government's *laissez-faire* approach.

With its emphasis on skills and standards – backed by the commitment to sign the EU's social chapter – the UK government is now much more closely aligned with its European partners and also the Clinton administration.

Mrs Liddell's comments coincided with publication of the OECD's latest report into the implementation of its jobs strategy. The report hailed the UK under the Conservatives as a leading example of a country which had implemented the jobs strategy and enjoyed improved labour market performance as a result.

The OECD did, however, argue that skill improvements and more effective labour market policies should be an important element of the strategy in countries suffering rising income inequality, poverty and slow real income growth. The UK has, until the last couple of years, seen one of the biggest increases in income inequality of any industrial country.

Continental European countries were urged to improve the flexibility of their labour and product markets. Several were encouraged to modify minimum wage schemes and to decentralise wage setting.

The OECD's economic and development review committee also called for countries to do more to restrain government borrowing, although some were also urged to implement tax reductions. It suggested that countries combining low inflation with spare capacity should continue to use low interest rates.

Mrs Liddell outlined plans for an education and training system based on the German model: 16-year-olds would be offered "a college and school-based route, and a work-based apprenticeship and training route".

Labour rights may change, Page 10

Mahfoud Nahnah: 'There is a double standard at work here'

Islamist party may pull out of Algeria poll

By Roula Khalaf in Algiers

Mr Mahfoud Nahnah, leader of Algeria's largest legal Islamist party, yesterday threatened to pull out of the June 5 legislative elections after accusing the government of interfering in the campaign.

Mr Nahnah said his party, the Movement for a Peaceful Society (MSP), formerly known as Hamas, was being prevented from holding meetings in some constituencies. He said pro-government parties were enjoying the support of the administration, which facilitates their campaigns by giving them easy access to government buildings.

"There is a double standard at work here, and there are abuses," Mr Nahnah said. "Our candidates held a meeting in a café yesterday and the owners were later questioned by security forces. Unless the administration stops interfering, we will have to pull out because we will not be part of a rigged election."

The army-backed Algerian government is holding the elections in the hope they will replace the 1991 poll cancelled by the army after a victory by the Islamic Salvation Front (FIS). With the FIS now banned, the government has tried to promote the MSP as one of the moderate and acceptable Islamist alternatives.

The new Algerian constitution officially bans parties based on religion, but Mr Nahnah was simply asked to change his party's name. He has been accommodating to the regime in recent years, hoping the FIS ban will help him woo former FIS supporters to his party's ranks.

But worried that Mr Nahnah's appeal will widen beyond the scope desired by the government, officials have been attacking him in recent days, and reminding voters he was once responsible for sabotaging government property.

Mr Nahnah said his party has lodged as many as 70 complaints with the independent commission set up to monitor the the elections and with the international observer mission already in Algiers. "But we have found that complaints are not taken seriously," he said.

The Algerian elections are taking place in abnormal circumstances, in which massacres of civilians have become weekly, sometimes daily, events. An estimated 60,000 people have died in Algeria since 1992.

The army-backed government has severely narrowed the political field. The assembly which will emerge from the elections has been stripped of most powers.

But the transparency of the election and the preceding campaign are important to show the regime is willing to allow a limited form of political expression.

Israel refuses to give way on homes

By Mark Huband in Cairo and Judy Dempsey in Jerusalem

A Palestinian holds his property deeds yesterday as he calls for Israeli bulldozers on the West Bank to stop work *Reuter*

Mr Benjamin Netanyahu, Israel's prime minister, is unlikely to back away from expanding Jewish settlements in Arab land when he meets President Hosni Mubarak of Egypt today at the Egyptian Red Sea resort of Sharm el-Shiekh.

The summit, initiated by Mr Mubarak, is an attempt to kick-start the peace process suspended two months ago after Israel began building the Har Homa Jewish settlement in Arab east Jerusalem.

Mr Mubarak is hoping to reach an agreement on Jewish expansion, but Israeli officials yesterday tried to damp expectations that anything substantial would come out of the summit. They said Israel would neither halt nor suspend work at Har Homa.

Mr Netanyahu may instead offer Mr Mubarak a commitment to build new Arab housing alongside the Jewish homes. He may also offer to stop confiscating Jerusalem residence permits for Palestinians who have not lived in the city for over seven years, and accelerate plans to open a port and airport in Gaza.

Mr Netanyahu has come under renewed pressure from the Land of Israel Front, a nationalist group of 17 Knesset parliamentarians, who have threatened to pull out of his centre-right coalition if work on Har Homa is halted or suspended.

"Whether he is using this pressure not to make concessions or whether he really believes in Har Homa and expanding the settlements is hard to say.

The point is that some compromise will have to be made by both sides to restart the talks," an Israeli foreign ministry official said.

Egyptian officials have been hoping that Israeli public opinion could be stirred into opposing the building programme. But Israelis have continued to be swayed by immediate security concerns rather than long-term relations with the Arabs.

Consequently, the Egyptian leadership has opted to try and diminish Arab-Israeli distrust, by continuing to talk to Israel. Confidence-building, of a kind which can affect Israeli public opinion, also remains Egypt's policy.

Coup leaders strive for control of Sierra Leone

By Antony Goldman in Lagos

Sporadic gunfire and looting continued in the Sierra Leonean capital, Freetown, yesterday as leaders of Sunday's coup against the elected civilian government of President Ahmed Tejan Kabbah tried to consolidate their hold on power.

The United Nations, the Organisation of African Unity and several European countries have joined the Commonwealth in condemning the takeover by the Armed Forces Ruling Council (AFRC).

"The people of Sierra Leone will not accept this," said Mr James Jonah, a close associate of President Kabbah and a former under-secretary-general at the UN. "They want democracy."

However, by last night several former ministers and security officers had surrendered to defence headquarters at the insistence of the coup leaders.

Mr Kabbah is believed to have fled to neighbouring Guinea.

In radio broadcasts yesterday, Major Johnny-Paul Koromah, the new self-declared head of state, said the ousted civilian administration had failed to deliver either stability or peace to the country, which has been racked by a brutal and debilitating six-year civil war.

While elections last February were widely praised as free and fair, the victorious Sierra Leone People's party had shown itself increasingly incapable of controlling the army, cementing the peace it signed with Revolutionary United Front (RUF) rebels last November or of promoting economic recovery in what was already one of the most impoverished countries in Africa.

Coup leaders are reported to have called on Mr Foday Sankoh, the RUF leader, who has spent the last two months in Nigeria officially as a guest of the foreign ministry, to return home and join in government. It is not clear, however, how free he is to do so.

Nigeria, which also has a number of troops based in Freetown as part of a bilateral defence agreement, has yet to react officially to the coup.

The rebels say they remain committed to a negotiated solution to Sierra Leone's problems, and have instructed their troops to abide by an existing ceasefire until the situation in Freetown becomes more clear.

"We want to know who these people who have taken over are," one official said.

INTERNATIONAL ECONOMIC INDICATORS: BALANCE OF PAYMENTS

Trade figures are given in billions of European currency units (Ecu). The Ecu exchange rate shows the number of national currency units per Ecu. The nominal effective exchange rate is an index with 1985=100.

UNITED STATES

	Exports	Visible trade balance	Current account balance	Ecu exch. rate	Effective exch. rate
1986	231.0	−140.6	−153.4	0.9836	81.4
1987	220.2	−131.8	−144.1	1.1541	71.9
1988	272.5	−100.2	−107.4	1.1833	67.0
1989	330.2	−99.3	−94.3	1.1017	70.0
1990	309.0	−79.3	−72.7	1.2745	66.7
1991	340.5	−53.5	−6.0	1.2391	65.7
1992	345.9	−65.2	−47.5	1.2957	64.4
1993	397.3	−98.7	−85.4	1.1705	66.3
1994	432.3	−127.0	−125.2	1.1857	65.1
1995	452.3	−122.8	−114.6	1.2928	61.2
1996	498.6	−133.1	−131.8	1.2526	64.4
2nd qtr.1996	126.2	−33.0	−32.8	1.2362	64.6
3rd qtr.1996	122.3	−36.6	−37.9	1.2613	64.4
4th qtr.1996	128.8	−32.6	−33.0	1.2557	65.0
1st qtr.1997	140.4	−39.3		1.1713	68.3
April 1996	41.6	−10.6	n.a.	1.2421	64.3
May	42.8	−11.8	n.a.	1.2262	64.6
June	41.9	−10.5	n.a.	1.2383	64.8
July	40.0	−12.5	n.a.	1.2563	64.6
August	41.3	−11.4	n.a.	1.2688	64.1
September	41.0	−12.7	n.a.	1.2587	64.7
October	43.0	−10.2	n.a.	1.2538	65.0
November	43.0	−10.1	n.a.	1.2706	64.4
December	42.8	−12.3	n.a.	1.2428	65.5
January 1997	43.1	−14.5	n.a.	1.2105	66.7
February	47.2	−13.7	n.a.	1.1587	68.9
March	50.3	−11.0	n.a.	1.1447	69.5

JAPAN

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1986	208.9	94.2	87.2	165.11	127.7
1987	194.7	83.7	75.5	166.58	138.8
1988	218.7	79.8	67.0	151.51	153.7
1989	245.5	70.6	53.4	151.87	147.0
1990	220.0	50.0	28.5	183.94	132.5
1991	249.4	77.7	57.4	166.44	143.7
1992	256.6	98.2	86.7	164.05	150.7
1993	300.3	118.6	112.4	130.31	181.0
1994	325.0	121.7	110.5	120.99	194.9
1995	331.1	101.3	85.3	121.43	204.8
1996	319.8	66.6	52.6	136.24	177.7
2nd qtr.1996	81.7	16.3	12.9	132.90	180.8
3rd qtr.1996	78.7	15.7	13.2	137.43	176.9
4th qtr.1996	80.4	17.0	13.1	141.72	171.2
1st qtr.1997	83.3	14.9	13.2	141.82	164.3
April 1996	26.7	3.9	3.5	133.12	180.7
May	28.5	6.0	4.8	130.67	183.1
June	26.6	6.3	4.6	134.91	178.2
July	26.7	4.6	4.3	137.21	176.8
August	26.6	6.2	6.1	136.84	178.2
September	25.4	4.9	2.8	138.24	175.7
October	27.1	5.5	4.4	140.92	172.2
November	27.1	6.7	4.7	142.64	171.3
December	28.2	4.8	4.1	141.59	170.2
January 1997	28.4	5.9	5.8	142.63	166.5
February	27.5	4.1	4.1	142.52	162.3
March	27.3	4.9	3.4	140.32	163.7

GERMANY

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1986	248.5	53.5	41.8	2.1279	108.6
1987	254.4	56.8	40.6	2.0710	114.9
1988	272.6	61.4	42.4	2.0739	114.1
1989	310.1	65.1	51.5	2.0681	113.3
1990	324.6	51.8	38.3	2.0537	118.1
1991	327.6	11.1	−14.6	2.0480	117.1
1992	330.9	16.8	−15.0	2.0187	120.6
1993	325.2	30.6	−12.1	1.9337	125.3
1994	360.3	37.5	−17.8	1.9198	125.6
1995	404.4	45.9	−18.3	1.8509	132.1
1996	416.4	52.2	−11.4	1.8844	128.6
2nd qtr.1996	101.6	11.5	−2.7	1.8821	128.2
3rd qtr.1996	104.8	14.5	−6.7	1.8884	128.7
4th qtr.1996	107.0	14.7	−1.3	1.9217	127.0
1st qtr.1997				1.9415	124.8
April 1996	34.2	4.3	−0.7	1.8715	129.0
May	33.8	4.3	−1.6	1.8826	127.7
June	33.6	3.0	−0.4	1.8921	127.8
July	35.4	5.5	−3.2	1.8888	128.5
August	34.6	4.4	−3.2	1.8808	129.2
September	34.8	4.6	−0.3	1.8957	128.3
October	35.5	4.9	−1.2	1.9157	127.3
November	35.8	5.1	0.1	1.9207	127.3
December	35.7	4.6	−0.5	1.9286	126.2
January 1997	34.6	3.3	−5.0	1.9414	125.3
February	36.4	5.2	−0.8	1.9412	124.5
March				1.9418	124.5

FRANCE

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exch. rate
1986	127.1	0.0	3.0	6.7946	102.7
1987	128.3	−4.6	−3.7	6.9265	102.7
1988	141.9	−4.7	−3.4	7.0354	100.6
1989	162.9	−6.3	−3.6	7.0169	99.6
1990	170.1	−7.2	−7.2	6.9202	103.8
1991	175.4	−4.2	−4.9	6.9643	102.1
1992	182.6	4.5	2.9	6.8420	105.4
1993	179.6	13.3	8.0	6.6281	109.1
1994	198.6	12.9	5.4	6.5659	110.1
1995	222.1	15.9	10.9	6.4460	113.4
1996	230.6	17.6	16.8	6.4069	113.3
2nd qtr.1996	56.2	3.8	2.7	6.3772	113.4
3rd qtr.1996	58.2	5.1	3.7	6.4242	113.2
4th qtr.1996	58.2	4.0	4.3	6.4976	112.5
1st qtr.1997				6.5517	110.9
April 1996	18.4	0.5	0.8	6.3489	113.9
May	19.3	1.8	0.9	6.3707	113.3
June	18.5	1.5	1.2	6.4121	113.0
July	19.1	1.6	−0.6	6.3965	113.7
August	19.6	2.1	1.6	6.4231	113.2
September	19.5	1.4	2.7	6.4532	112.8
October	19.7	1.8	1.8	6.4770	112.8
November	18.7	1.0	1.0	6.5001	112.6
December	19.8	1.3	1.6	6.5156	111.9
January 1997	19.1	1.6	3.2	6.5512	111.2
February	18.8	1.7	2.9	6.5539	110.6
March				6.5502	110.7

ITALY

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1986	99.4	−2.5	−1.4	1461.6	101.4
1987	101.0	−7.7	−2.1	1494.3	101.1
1988	108.3	−8.9	−8.0	1536.8	97.7
1989	127.8	−11.3	−17.0	1509.2	98.6
1990	133.6	−9.3	−18.0	1523.2	100.1
1991	137.0	−10.5	−17.7	1531.3	98.7
1992	137.9	−8.0	−21.5	1591.5	95.6
1993	144.9	18.1	9.7	1836.7	80.5
1994	161.4	18.8	13.1	1906.6	77.0
1995	181.0	21.6	20.1	2106.4	69.4
1996	200.3	35.0	21.0	1932.1	75.8
2nd qtr.1996	51.6	9.8	10.7	1922.3	75.9
3rd qtr.1996	47.6	11.3	8.8	1918.4	76.7
4th qtr.1996	53.4	9.2	2.9	1911.2	77.6
1st qtr.1997			−7.1	1917.8	77.0
April 1996	16.2	2.3	2.4	1944.9	74.8
May	18.1	3.9	4.0	1912.2	76.2
June	17.4	3.7	4.3	1909.8	76.8
July	19.7	6.3	2.7	1918.1	76.6
August	11.9	3.5	5.4	1923.8	76.4
September	16.0	1.4	0.7	1913.2	77.0
October	19.1	4.0	1.3	1911.4	77.5
November	17.1	3.0	1.6	1922.6	77.2
December	17.2	2.2	−0.1	1899.5	78.1
January 1997	14.3	0.9	−3.9	1896.7	78.2
February	18.0	1.9	−1.3	1918.8	76.8
March			−1.8	1937.9	75.9

UNITED KINGDOM

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1986	108.3	−14.2	−1.3	0.6708	91.1
1987	112.3	−16.4	−6.6	0.7047	89.3
1988	120.9	−32.3	−24.8	0.6643	94.7
1989	137.0	−36.7	−33.3	0.6726	91.9
1990	142.3	−26.3	−26.2	0.7150	89.8
1991	147.7	−14.7	−11.4	0.7002	90.5
1992	145.9	−17.8	−13.8	0.7359	87.1
1993	156.0	−17.3	−13.8	0.7780	79.9
1994	174.1	−14.0	−3.1	0.7736	80.1
1995	186.9	−14.1	−4.6	0.8190	78.2
1996	206.9	−15.2	−0.0	0.8026	77.5
2nd qtr.1996	51.2	−3.7	0.9	0.8113	76.1
3rd qtr.1996	51.4	−3.6	−0.4	0.8113	76.8
4th qtr.1996	54.9	−3.4	1.1	0.7670	82.1
1st qtr.1997				0.7186	87.0
April 1996	16.8	−1.5	n.a.	0.8201	75.2
May	17.3	−1.1	n.a.	0.8106	76.0
June	17.1	−1.1	n.a.	0.8031	77.2
July	17.3	−1.4	n.a.	0.8085	77.0
August	16.9	−0.8	n.a.	0.8185	76.1
September	17.3	−1.4	n.a.	0.8070	77.4
October	18.2	−0.9	n.a.	0.7904	79.4
November	18.0	−1.3	n.a.	0.7642	82.6
December	18.7	−1.1	n.a.	0.7465	84.4
January 1997	19.7	−0.7	n.a.	0.7298	86.2
February	19.9	−1.1	n.a.	0.7132	87.5
March			n.a.	0.7127	87.5

Due to the introduction of the Single Market, EC countries are currently changing to a new system of compiling trade statistics. All trade figures are seasonally adjusted, except for the Italian series and the German current account. Imports can be derived by subtracting the visible trade balance from exports. Export and import data are calculated on the FOB (free on board) basis, except for German and Italian imports which use the CIF method (including carriage, insurance and freight charges). German data up to and including June 1990, shown in italics, refer to the former West Germany. The nominal effective exchange rates are period averages of Bank of England trade-weighted indices. Data supplied by Datastream and WEFA from national government and central bank sources.

Trade minister says WTO is not forum for discussion of social clause

Labour may modify rights demand

By Guy de Jonquières in Paris

Britain's Labour government appears to be backing away from earlier plans to press for a "social clause" in international trade agreements, intended to encourage respect for core labour standards.

Lord Clinton-Davis, a trade minister, said yesterday that although the government was committed to eliminating abusive labour practices worldwide, efforts should focus for the time being on discussions in the International Labour Organisation, rather than in the World Trade Organisation.

His statement, at a ministerial meeting of the Organisation for Economic Cooperation and Development in Paris, is in contrast with the enthusiasm expressed by several other government members for the use of trade policy to enforce labour rights.

Mr Robin Cook, the Labour foreign secretary, Mrs Margaret Beckett, the chief trade and industry minister, and Ms Clare Short, the international development minister, have all said that they favour the idea. A Labour party industrial policy document, published late last year, called for a social clause in trade agreements.

Lord Clinton-Davis said Labour's definitive position would be decided after consultations with other ministers, the Confederation of British Industry [the principal employers' lobby group] and the Trades Union Congress. The CBI strongly opposes linking trade and labour standards, while the TUC supports the idea.

"We think the ILO is the most appropriate forum at this stage," Lord Clinton-Davis said. Although the organisation lacked enforcement powers, any move to re-start talks on trade and labour standards in the WTO would be a "difficult matter" for developing countries, he said.

However, the government might review its position if the ILO proved slow to achieve results.

At their ministerial meeting in Singapore in December, WTO members rejected a controversial US-led campaign to raise labour standards in the organisation, and agreed that further talks on the issue should take place in the ILO. Many countries condemned the US demand as protectionist.

Lord Clinton-Davis said his government would support the free-trade principles embraced by its Conservative predecessor.

He said it was strongly committed to the WTO and would respect its decisions on trade disputes, even if they did not agree with UK policy.

He said Britain would accept a recent WTO panel ruling, which found the European Union's banana import regime violated world trade rules, if it were upheld on appeal.

The EU regime discriminates in favour of imports from former UK colonies in the Caribbean.

Hands-off approach urged over mergers

Minister's decision to overrule Office of Fair Trading leads to calls for less political control

Last week's decision by Mrs Margaret Beckett, chief industry minister, to refer two acquisitions to the Monopolies and Mergers Commission against the advice of the Office of Fair Trading has brought renewed calls for the politics to be taken out of merger control.

Critics of Mrs Beckett's move argue that such political involvement increases the unpredictability of merger regulation. It could prompt companies to restructure deals so that they qualify for scrutiny in Brussels, bypassing UK control altogether.

The degree of the minister's discretion over referrals to the MMC was the subject of mounting criticism even before Mrs Beckett's decision to refer the acquisition by National Express of two privatised rail franchises.

In a call for reform last year, Sir Graeme Odgers, chairman of the MMC, said the current system "introduces a political input at too early a stage of the regulatory process".

Policing mergers

Australia	Competition authority
Belgium	Competition authority
Canada	Competition authority
France	Minister
Germany	Competition authority
Ireland	Minister
Italy	Competition authority
Japan	Competition authority
Spain	Minister
Sweden	Competition authority
UK	Minister
US	Justice department or competition authority

Source: Ashurst Morris Crisp

Reducing the political involvement would bring the UK into line with other countries.

Mr Nigel Parr, a competition partner at Ashurst Morris Crisp, a City of London law firm, says that by international standards the UK system of merger control allows an extraordinary degree of political involvement.

"There are very few other significant jurisdictions in the world where a politician has the ability to initiate a 'second stage inquiry' [carried out in the UK by the MMC]," he says. In most other countries, the decision is left to the equivalent of the UK's Office of Fair Trading, which handles the initial investigation.

In recent years, there has been only a handful of occasions when a minister has overruled the OFT. In most cases, this involved the minister deciding that an inquiry was unnecessary.

The pressure for reform has also focused on the degree of political involvement after the MMC has reported. Under the current system, the chief minister is bound by the MMC's judgment only if it concludes that a merger would not operate against the public interest, in which case it must be cleared.

In its report this year, the influential Commission on Public Policy and British Business said the current system was too dependent on the "predilections of individual ministers" and on "party-political considerations".

Trevor Humphries

Sir Graeme Odgers: political input occurs too early

The commission also criticised the ruling Labour party's plans to change the burden of proof in merger control by introducing a test of "positive public interest".

The proposal, which is the subject of a review under Lord Borrie, a former director-general of fair trading, reflects Labour's long-held view that takeovers are frequently damaging to the economy and should be made more difficult.

Party insiders play down suggestions that the new government's approach to merger decisions will be very different from the former Conservative administration's, which tended to focus on competition questions rather than issues such as jobs.

If the burden of proof were changed, or merger reference policy altered – to include non-competition issues – Mr Parr believes that large companies would take steps to avoid having deals regulated in London.

"To avoid increased uncertainty, businesses could restructure transactions to fall within the scope of EC merger regulation where the test is simply whether the merger is likely to create a position of unrestrained market power," says Mr Parr.

Failing that, companies could simply wait until March next year, when new EC rules will take many smaller mergers out of Mrs Beckett's hands anyway.

David Wighton

'Obstacle' warning on open border exemption

By Emma Tucker in Brussels

The Dutch presidency of the European Union yesterday warned that fundamental obstacles would have to be overcome before the UK could be granted exemptions from EU plans for open borders and common asylum and immigration policies.

The warning came as Mr Jack Straw, the home secretary, used his first meeting in Brussels to reiterate the UK's insistence on retaining frontier controls and the right of the Westminster parliament to control policy on immigration, asylum and visas.

"We are clear that the UK has to maintain its own border controls at ports of entry and control of the UK parliament over related matters which include immigration and asylum policy," said Mr Straw.

Britain is demanding a "cast iron legal guarantee" which it wants written into the revised EU treaty to ensure the permanent right of the UK authorities to run their own border policy.

But with only three weeks to go until the Amsterdam summit, at which the treaty is due to be revised, Dutch officials said the scale of work still to be completed was formidable.

Officials said they believed the UK would accept the incorporation of the Schengen open borders agreement into EU law. But the British had not yet made clear how they expected their opt-out from what would become EU policy to work.

However, Mr Straw said there was a "high degree of understanding" among Britain's EC partners about Britain's particular situation as an island.

"Border controls would make very little sense for Germany which has a border with other countries of 6,000km, whereas border controls for us make every sense," said Mr Straw.

Although striking a firm line on British demands over borders, Mr Straw also signalled a more co-operative approach on justice and home affairs, pointing out that Britain had a lot to learn from its European partners.

"We can learn a lot from the Continent in the field of organised crime," he said. "There is no one answer to how these great plagues on democratic countries are to be tackled."

Several conventions were signed at the meeting in Brussels including an agreement designed to combat corruption involving civil servants working for the EU or member states. The idea is to ensure that corruption offences involving civil servants is considered an offence throughout the EU. The measures would also cover businesses caught up in corruption involving civil servants.

UK NEWS DIGEST

Group admits planting bomb

The Loyalist Volunteer Force, a breakaway unit of anti-republican paramilitaries, yesterday claimed responsibility for a bomb which was planted in Dundalk, a town in the Republic of Ireland near the border with Northern Ireland. The device was left in an alley on Sunday and was blown up by Irish Defence Force experts.

"This bomb failed to go off because of a technical problem which has now been sorted," the Loyalist Volunteer Force said. "Further attacks will continue as long as Dublin interferes in Ulster affairs. These attacks will take the form of no-warning bomb attacks as in Dundalk."

Members of the force are frustrated by the refusal of the Combined Loyalist Military Command, an umbrella group for established anti-republican paramilitary organisations, to abandon its 2½-year ceasefire in the face of attacks in England and Northern Ireland by republican groups.

● Ms Roisin McAliskey, who is wanted in Germany in connection with an Irish Republican Army attack there last year, gave birth to a girl yesterday in a London hospital. There was a police guard at the Whittington hospital in Highgate, where Ms McAliskey arrived three days ago from nearby Holloway Prison, but no member of the security services was present at the birth.

Ms McAliskey's mother, the former nationalist Northern Ireland MP Ms Bernadette Devlin, who was understood to have been present at the birth, expressed the family's gratitude to the hospital. "We are overwhelmed at the goodness, the skill, the kindness, the professionalism, and the dignity with which we have all been treated by this hospital," she said. Ms McAliskey has been held on remand in Holloway while fighting extradition to Germany in connection with an IRA mortar bomb attack on a British Army base in Osnabrück.

■ BANK OF ENGLAND

New committee to meet in June

The first meeting of the Bank of England's new monetary policy committee, given the power to set interest rates, will take place on June 5 and 6. The committee will hold two-day meetings every month, Its decisions will be announced at noon local time on the final day of the meeting. The Bank also named the members of the interim committee to decide rates until the full nine-member panel is appointed. Mr Eddie George, the Bank's governor, will chair the group, which will include the Bank's executive directors, Mr Mervyn King and Mr Ian Plenderleith, and Mr Howard Davies, the current deputy governor. *Richard Adams, London*

Monetary constitution, Page 18

■ BANKING INDUSTRY

'Health too good to last' warning

The health of the UK banking industry is too good to last, the Bank of England has warned in what may be its valedictory assessment of the sector before it hands over responsibility for banking supervision to the Securities and Investments Board.

Mr Michael Foot, head of the Bank's supervision and surveillance division, said the health of the banking system today, in aggregate, was "truly staggering".

"The fact that these people can be earning in some cases 30 per cent return on equity is clearly unsustainable. I'm not sure where the problems will come from, but they will come," he warned.

The Bank is required to present the report to the chancellor of the exchequer each year under the terms of the 1987 Banking Act. But the changes announced last week by Mr Gordon Brown, the new chancellor, will transfer the responsibility to SIB. *George Graham, London*

■ OFFSHORE INDUSTRIES

Fear over lack of young recruits

The Offshore Contractors Association says a rapidly rising age profile in the offshore oil and gas industry poses a long-term threat to the viability of the sector.

Few young people are being attracted to the industry in spite of growing demand – especially in the operations and maintenance segment of the market, officials of the association say.

The association, whose members include the big fabricators of North Sea oil and gas platforms as well as specialists in operating and maintaining them, says the average age of blue collar workers is now between 40 and 50.

The offshore industry faces "a real problem if we don't attract more young people", said Mr Syd Fudge, the chairman of the OCA and chief executive of Kvaerner Oil and Gas in Aberdeen. He added that some specialist areas were already experiencing difficulty in filling positions.

Mr Fudge said a public perception that the offshore oil industry was "environmentally unfriendly" was partly to blame for the difficulty in attracting young workers and apprentices – a perception which was untrue, he said. He added that public concerns about safety standards offshore were also inaccurate. *Robert Corzine, London*

Track test for Channel rail link

US troubleshooter positive on projections for tunnel scheme

The American engineer brought in to take charge of the construction of the high-speed rail link to the Channel tunnel between England and France, Mr John Neerhout, expects to see the first commercial test of the project's financial forecasts next month.

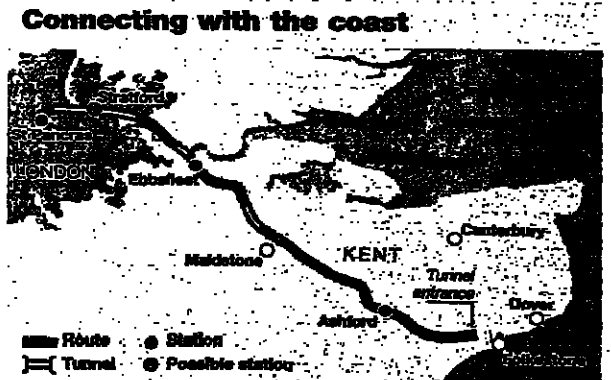
That is when the international construction groups which are in line to carry out work on five tunnelling projects put in their bids. They will show whether Union Railways' own costings for the £3bn ($4.9bn) project – at 1995 prices and excluding financing costs – are accurate.

Mr Neerhout, who experienced the problems which come with large engineering contracts during three years spent working on the building of the Channel tunnel itself, is confident that the financial projections are robust.

They were calculated by teams from Union Railways, the company responsible for designing and building the 110km link from London to the Channel tunnel, which Mr Neerhout now heads.

They were reviewed by London & Continental Railways, the private sector grouping which last year won the 999-year concession to build and operate the link. Last week they were scrutinised by French railway engineers who built the TGV high speed lines.

Connecting with the coast



"When we get the tenders in, we will do completely new estimates," says Mr Neerhout. "We have had some puts and takes but have not found any blockbuster changes in our cost calculations up to now."

Mr Neerhout started work at Union Railways after just one week's notice on April 8. Six months earlier, he had retired from a 30-year career with Bechtel, the US engineering group, which is a shareholder in LCR.

But when Mr John Armitt, managing director of Union Railways, was headhunted to become chief executive at the Costain construction group, Mr Neerhout, who is 66, was invited to take on the job. The pressure on Mr Neerhout and LCR is to show the City of London, which will be asked to fund a £1bn offering of the company next year, that the project is under firm control.

Construction groups from around the world have been vetted in advance and the big tunnelling contracts put out to tender as early as possible. The tender to extend St Pancras station, the London terminus, will be brought forward to this year.

But while all these preparations are aimed at ensuring a successful flotation, Mr Neerhout has made plain to his engineers that they must not be diverted from their true job by financial considerations.

"I wanted our people to focus on the 5½-year construction programme and not on the financial close – flotation – in 1998," he says.

The reason for this change of emphasis is Mr Neerhout's experiences at Eurotunnel, the company which runs the Channel tunnel, where he was called in during 1990 to get the construction programme back on track. "Eurotunnel was fighting TML – the construction consortium – on claims," he says. "The bulk of the efforts of the engineers was concentrated on writing claims letters.

"As a result, the engineering and design work was woefully behind. I told the engineers that I would take the claims under my wing. This meant the designs got done and the engineers got up to speed."

Mr Neerhout hopes that the wrangles which dogged the Channel tunnel project will not resurface on the rail link because he plans to establish a more co-operative relationship with the chosen contractors.

Contracts will allow both sides to share in any cost savings which result from improvements in performance and efficiency.

Charles Batchelor

Spain

Despite improvements on the economic front, and progress towards monetary union, Spain is plagued by political conflict. **David White** reports

Shadows from past tarnish bright prospects

■ Area: 504,750 sq km

■ Population: 39.3 m (1996)

■ Languages: Spanish (Castilian), Basque, Catalan, Galician

■ Main towns and population (1991 census)

Madrid (capital)	3,019,000
Barcelona	1,643,000
Valencia	753,000
Sevilla	683,000

■ Currency: Peseta (Pta)

Exchange rate: 1996 average $1 = Pta126.6

May 21 1997 $1 = Pta142.765

■ National legislature

Bicameral Cortes

Senate of 257 members, 208 directly elected and 49 appointed as regional representatives, but with little influence

Congress of Deputies

350 members, elected from closed party lists in individual constituencies

■ Congress of Deputies

PP (Popular Party)	156
PSOE (Socialists)	141
IU (Communists and allies)	21
CiU (Catalan coalition)	16
PNV (Basque nationalists)	5
CC (Canary Island coalition)	4
Others	7
Total seats	350

■ Electoral system

Universal suffrage over age 18

■ Head of state

King Juan Carlos

■ State legislatures

17 autonomous community (regional) parliaments

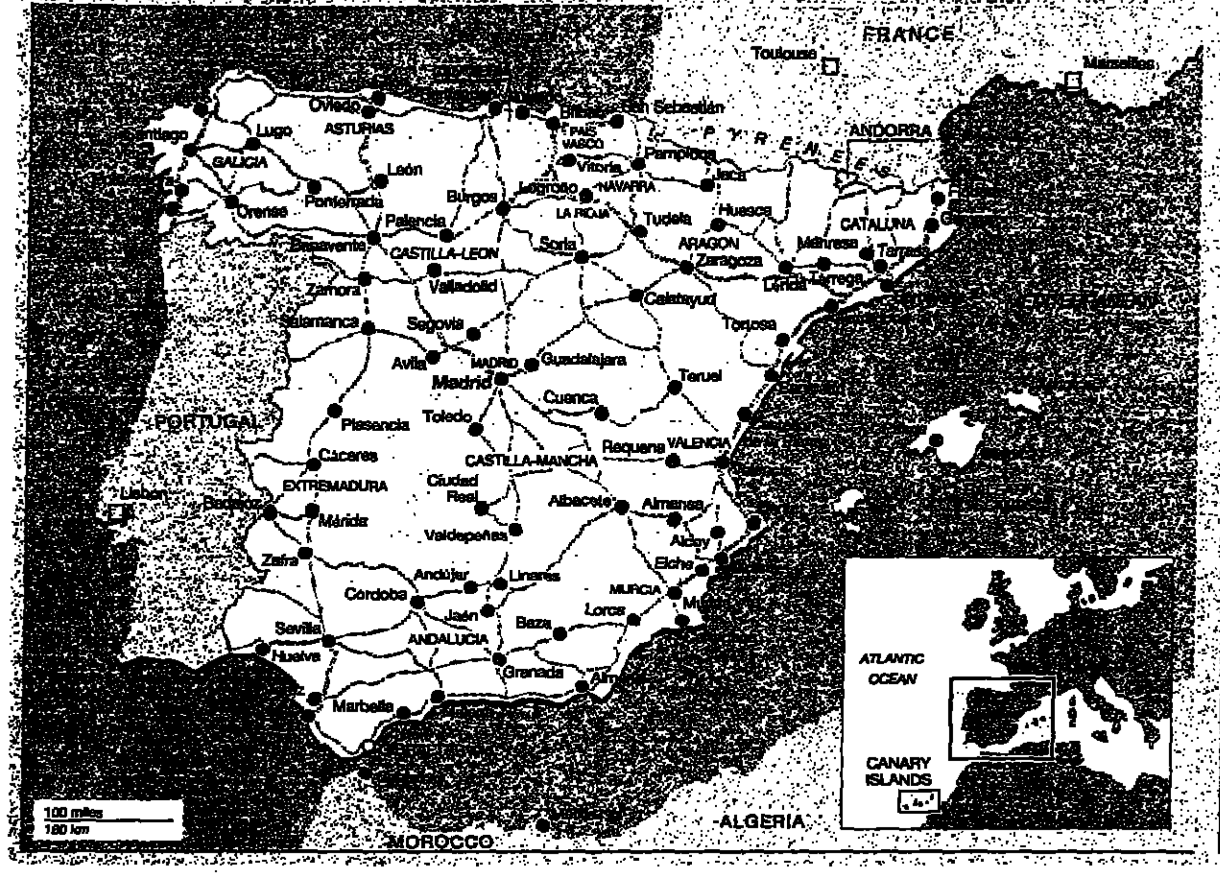
■ National elections

March 3 1996; next election due by March 2000

■ National government

Council of Ministers headed by the president (prime minister), appointed by the king, but must win investiture vote in parliament. José María Aznar, leader of the Popular Party (PP), was elected president in May 1996 at the head of a minority PP government with the support of three regional parties, of which the most decisive is the Catalan nationalist coalition, CiU.

Sources: EIU; IMF; Government statistics



Economic summary

	1996 Estimate	1997 Forecast
Total GDP ($bn)	563.0	604.4
Real GDP growth (annual % change)	2.1	3.0
GDP per head ($)	14,830	15,380
Inflation (annual % change in CPI)	3.6	2.2
Average hourly earnings (annual % change)	5.5	4.0
Industrial production (annual % change)	3.3	3.3
Unemployment rate (% of workforce)	22.2	21.3
Money supply, M2 (annual % change)	4.7	6.5
Government expenditure (% of GDP)	43.1	41.6
Government debt (% of GDP)	69.5	69.0
Current account balance ($bn)	1.4	1.4
Merchandise exports ($bn)	101.4	110.1
Merchandise imports ($bn)	-117.5	-126.1
Trade balance ($bn)	-16.1	-16.0

Main trading partners (share of total trade to world, 1996)

Exports		Imports
20.1%	France	17.9%
14.5%	Germany	14.8%
8.7%	Italy	9.5%
8.5%	UK	8.3%

After just over a year under the rule of the centre-right Popular party, Spain is in a contradictory state.

Many of the clouds on the economic horizon 12 months ago have dispersed; the government, elected by the narrowest of margins, appears stable in the short term; and the labour climate is comparatively serene. But at the same time, the acrid and noisome atmosphere that pervaded Spanish politics in the closing years of the previous Socialist administration has wafted back, hanging over the country like a pestiferous fog.

Just as they see their economic prospects brightening, the long-suffering Spaniards are spectators to an unedifying spectacle of mutual insults and recriminations, in a system where parliament keeps a low profile and where the judiciary suffers from a damaged reputation. Spain, in short, is doing well, but it is not a new Spain.

Mr José María Aznar, the Popular party's first prime minister, at 44 a contemporary of Britain's Mr Tony Blair, had a soft landing in many ways. In pushing through measures to control the budget, deregulate and privatise, the new government was able to build on programmes already under way. Economic growth had slowed but was poised for a recovery, led by stronger export markets.

Mr Aznar's team went through some contortions to secure parliamentary backing from the Catalan and Basque parties which previously sustained the Socialists in power. It will doubtless face further demands from them, but is counting on their support at least until next year's entry test for the European single currency.

Since last year, Spain has been promoted from a "possible" to a "probable" candidate for monetary union. Except for its jobless rate, still running officially at more than 21 per cent, Spain's economy is no longer out of step with the rest of the European Union.

Convergence has become a virtuous circle. Budget curbs have helped bring down inflation, halved over the past year to 1.7 per cent; and lower interest rates, tracking the inflation trend, have lopped costs off the budget deficit.

Probably the Aznar government's biggest feat has been to hold Spain on course for Emu without provoking social unrest. After 13 years under the Socialists, the country was ready to give the new government leeway, even if it took unpopular steps such as freezing public sector pay.

The government smoothed over an incipient clash with miners, persuaded militant truck drivers to back down after a two-week blockade, settled with unions on state pensions and, most recently, provided backing for new hiring-and-firing terms agreed between unions and employers as a means of creating more stable jobs – a deal principally aimed at young Spaniards.

Disinflation has proved possible without drastic damage to growth, which the government hopes will reach a cruising speed of 3 per cent or more a year. Indicators for consumer confidence are at their best since 1991.

Ministers are anxious to give voters a taste of the tax cuts which Mr Aznar promised before the election, but which have been put off until the budget for 1999, the year Spain hopes to begin counting in euros.

Accession to monetary union has taken the dimensions of a national ambition, far outreaching any tangible economic benefits. As Mr Rodrigo Rato, finance minister, put it: "For the first time in 100 years, Spain will be in the vanguard of a European movement."

The decision due next spring on Emu membership comes at a symbolic time for Spain – the centenary of its great disaster year of 1898, which saw the loss of Cuba and the collapse of overseas empire.

Just 20 years after it applied to join the European community, Spain now has a greater presence in international institutions than ever before. Spaniards have assembled a collection of posts, among them the secretary-general of Nato, the director-general of Unesco, the presidents of the European parliament, Western European Union assembly and European court of justice, and the EU's envoy to the Middle East.

The Nato enlargement summit in Madrid in July, coinciding with Spain's belated integration into the alliance's military organisation, will be the first big international event hosted by Mr Aznar. On the world stage, Mr Felipe González, his predecessor and prime minister for Spain's first decade in the EU, is a difficult act to follow.

While not as spontaneous or as obviously magnetic as Mr González, Mr Aznar has proved himself to be cool, steady and resolute. He vowed to bring clean government and shows every sign of having meant it. But the change of administration has brought little sign of the broader "regeneration" of Spanish institutions which he advocated in a book, *The Second Transition*, two years ago.

His comments make interesting reading, for example on the "unsatisfactory" state of Spanish justice, which has recently been even more mired in controversy: "The shortcomings and deficiencies... are of such magnitude that it has become one of the problems of our state most urgently in need of tackling." Or on state-owned television, which has remained very much under the government's thumb: "The model of state broadcasting has to be reviewed root and branch so that political neutrality can be guaranteed." Or on the need to "revitalise" parliament, and reinstate its role as a forum of debate.

The focus of political conflict has moved outside parliament to a power struggle in the media – a television battle which, like many bar conversations, is based on a mixture of politics and football.

It pits the government and its supporters against Prisa, Mr Jesús de Polanco's newspaper, broadcasting and publishing empire, associated with the Socialists. Just as Mr Polanco's group was launching Spain's first digital TV venture early this year, the government issued competition rules requiring the use of multi-purpose decoders, thereby making the new venture's equipment illegal. This was followed by a bill obliging it to share its rights to broadcast club football matches, which it had bought from next season onwards. A rival government-backed digital TV project is due to start up in the autumn.

The tussle, further complicated by a bizarre legal case over Mr Polanco's TV operations, has led both sides to dig themselves into entrenched positions, to the extent that newspapers and TV channels allied with one faction or the other have thrown neutrality to the winds. Spain has become an objectivity-free zone.

Mr Aznar, who once promised solemnly that he would put an "independent and reputed" figure in charge of

Continued on Page 2

LABOUR REFORM • by David White

A step in the right direction

Last month's pact, although widely welcomed, may only be a partial solution

Labour reform has been part of the unfinished business of Spain's transition to democracy and its incorporation into the European mainstream after General Franco's death more than two decades ago.

The term is essentially a euphemism for making it easier and cheaper to sack people. The high cost and legal red tape attached to labour adjustments are one of the main complaints of companies in Spain, and one of the barriers to new investment.

An agreement last month between the main employer and union federations, their first big pact for more than a decade, was widely greeted as a breakthrough but may be at best a partial solution.

Post-Franco legislation brought radical changes in Spanish industrial relations – collective bargaining, free unions, recognition of the right to strike – but interventionism left its legacy in the legal and bureaucratic system dealing with redundancies.

One thing Spaniards had got used to, in exchange for the suppression of other rights, was job security. Despite the steep increase in unemployment which has accompanied Spain's modernisation, jobs-for-life attitudes have remained deeply ingrained in many sectors.

The obstacles to redundancy, far from saving jobs, are seen by employers as having made it harder for companies to avert full-scale crises. At the same time, by obstructing new job creation, they are considered one of the main reasons Spain has had such difficulty bringing down its jobless rate, which by the official (if flawed) measurement stands at close to 22 per cent – easily the highest in the European Union.

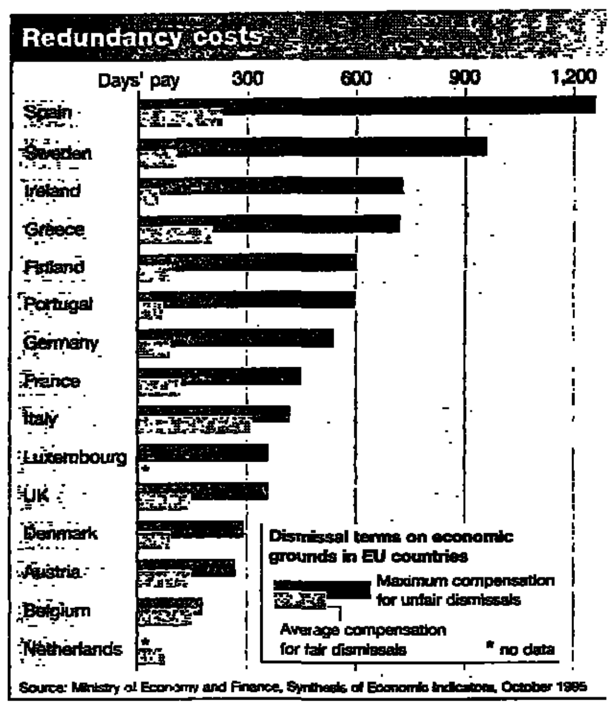
"The big difficulty," says an executive of a large hotel chain, "is deciding to take on more people when there is a boom."

Flashpoint: September 1995: Shipyard workers reacted with violence after the state-owned ship-building industry began cutting its workforce. Recent pacts have put off further job cuts *Picture: Reuter*

Since fixed-term employment was legalised in 1984, companies have increasingly taken on temporary personnel, resulting in high staff turnovers but avoiding severance costs. A third of all Spanish wage earners are now on temporary contracts. Of more than 8.6m new work contracts signed last year, just 4.1 per cent were for full-time, indefinite jobs. Of the remainder, more than half were for periods of six months or less.

Spain has had two attempts at changing this system. The first, three years ago, was undertaken by the Socialist government at the cost of a confrontation with unions, which called a one-day general strike in protest. Its main change was to extend the reasons which companies could cite to justify redundancies and therefore pay the basic legal compensation rate – 20 days' pay per year worked, up to a maximum of 12 months' pay.

In practice, the change had little effect. Unable to predict how labour courts would judge the issue, and anxious to avoid long delays – with the additional cost of retroactive pay – many companies preferred to pay redundant employees at or close to the legal rate set for unfair dismissals. That is, 45 days per year worked, up to a total of 42 months: the highest guaranteed deal on offer in the EU.



Source: Ministry of Economy and Finance, Synthesis of Economic Indicators, October 1995

The incoming centre-right administration set out to obtain a more effective reform, knowing there was wide public acceptance that some kind of revision was necessary, and threatening to legislate if unions and employers failed to get a move on in bilateral talks.

Negotiations between the main UGT and Workers' Commissions unions, on the one hand, and the CEOE employers' organisation and its small-company equivalent Cepyme on the other, appeared doomed to fail, and came close to doing so at the end of February.

But, with the unions anxious for more permanent jobs, and employers seeing the promise of government benefits – in the form of lower social security costs – if they provided them, the two sides finally settled on a formula to create a new kind of labour contract which would limit the liability to high redundancy costs.

This new deal will not apply to those already in permanent jobs, but to temporary employees converting to indefinite contracts and to other groups with particular difficulties on the job market – under-29s, long-term unemployed, over-45s and the handicapped.

The cost of terminating these contracts without proven justification is set at 33 days per year worked instead of 45, up to a total of 24 months rather than 42.

At the same time, the agreement includes a legal change which should make the basic 20-day compensation rate more widely applicable. The definition of acceptable "economic causes" will in theory now cover any measures aimed at "overcoming difficulties which prevent the proper functioning of the company, whether for its competitive position in the market or for meeting demand requirements through a better organisation of resources."

Business leaders agreed with the government that this was a significant victory for peaceful labour relations, coinciding with pacts to extend subsidies for Spain's coalmines and to put off further job cuts at the state-owned shipyards.

Mr Rodrigo Rato, finance minister, said it would "transmit the message that Spain is open to changes".

But while companies saw the agreement as an advance, and the new formula as one which would in the long term become standard, many wished it could have gone further.

A top compensation level of 24 months' pay, they argue, is still among Europe's highest. And, because there will still be a lot of room for judges' discretion, there will still be no way of knowing for certain how much redundancy plans will cost.

"It is good for the country's image abroad, and maintains the climate of economic optimism," said the Madrid-based Circulo de Empresarios businessmen's association. But it added that this was only "a first step". A second-stage change would be needed if Spain was to create "stable employment in competitive companies."

PROFILE Loyola de Palacio, farm minister

Robust negotiator

The ministry of agriculture, fisheries and food is a wonderfully overstated, late 19th-century pile facing Madrid's Atocha railway station, gateway to southern Spain.

On top of the building, flanking an allegorical statue which has something to do with science and art getting their just rewards, are two large winged horses cast in bronze. The originals were in stone, but were removed for fear they might fall on people approaching the colonnaded entrance.

For a politician, the ministry has become a notorious booby-trap.

The farm minister is not only prey to vociferous regional lobbies but is left holding the flag for Spain in its trickiest confrontations with European partners.

Ms Loyola de Palacio, appointed last year in the first Aznar cabinet, came to the job with little knowledge of the sector but promising to "leave my skin" if necessary for the farmers and fishermen of Spain.

Already known as a strong character, with a 20-year background in the conservative Popular party, in opposition until last year, she has had the opportunity to prove her abilities as a robust and articulate negotiator.

In Popular party ranks, she cuts a distinctive figure, her straightforward manner and unaffected appearance providing a refreshing contrast to the more primped and lacquered image typical of her women colleagues. A youthful 46, and single, she has never made any bones about belonging to the political right.

In the late 1970s Ms de Palacio was the first president of the party's youth branch, New Generations. Spanish newspapers persist in linking her to the lay Roman Catholic organisation Opus Dei,

De Palacio: once labelled 'the soldier-nun', she has found herself fighting for the future of the Spanish olive groves

although she has repeatedly denied ever belonging to it. The sharp-tongued Mr Alfonso Guerra, number two in the Socialist party, once labelled her "the soldier-nun".

Ms de Palacio's post is one that tends to push those appointed to it into becoming single-issue ministers. She might have expected to find herself caught in fisheries disputes like her unlucky Socialist predecessor, Mr Luis Atienza, who struggled for Spanish fishermen in successive wars with the French, the Canadians and the Moroccans.

Fishing remains sensitive, especially with the controversy in the UK over "quota-hopping" by Spanish boat-owners registering under a British flag. But the big issue she has found herself fighting for – and could not have predicted when she took the job – is the future of the olive groves that occupy vast tracts of rolling territory down the tracks from Atocha station.

This is not her home ground. Segovia, her parliamentary seat, has no olive trees, "unless maybe in somebody's garden." But she senses this is now the issue that more than any other threatens to affect the way people feel about the European Union and its treatment of Spain. "The olive has become a symbol," she says.

Battle-lines were drawn last year when Mr Franz Fischler, the European farm commissioner, put forward proposals for reforming the complex aid system for olive oil, aiming to make it simpler and more fraud-proof.

The five EU countries which produce olive oil, and between them dominate world output, are now broadly united in opposition to the plan, but it is Spain that has taken by far the most belligerent stance.

"You can't build Europe with your back turned to the people who are affected," the minister says. She argues that the proposed change – to a system based on hand-outs per olive tree rather than production of olive oil – would lead to the neglect of many olive plantations and a loss of employment in a sector reckoned to provide work for 300,000 people for at least part of the year.

A large part of Spain's output goes to Italy for bottling, or is marketed through Italian-controlled companies. "I would like more of the sales to be in Spanish hands," she says.

Ms de Palacio has found herself championing a cause for regions which have remained Socialist strongholds.

In Andalucia, the world's biggest producing zone, with many areas where nothing else can profitably be grown, she warns there could be "serious disturbances" if the plan is not not changed.

At El Arahal, east of Seville, a local co-operative decided to present her with a "Golden Olive" award but got into an unseemly argument with the Socialist mayor about whether she was the right person.

David White

MONETARY UNION • by David White

Hurdles seem to shrink

Spain now seems set to meet Emu targets – and to qualify as a 'first wave' entrant

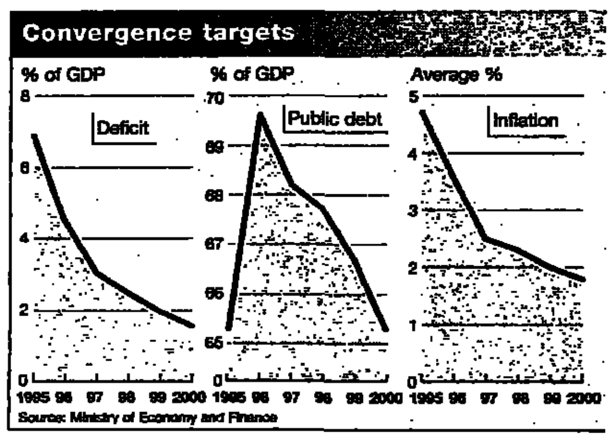
It may be an optical illusion, but the hurdles in the way of Spain's qualifying for European monetary union seem to be getting smaller rather than larger as the deadline approaches.

The convergence effort has brought Spain into a new economic era, with inflation and interest rates at low levels not seen since democracy was restored more than 20 years ago, and the budget deficit apparently under control at last.

This would doubtless have been a more strenuous and contentious process if it had not coincided with a recovery in the economic cycle. Two years ago, shortly after the peseta was devalued for the last time against other currencies in the European monetary system, it would have been a risky gamble to bet on Spain meeting any of the criteria under the current timetable.

Today, the remaining concerns focus more on the Emu decision next spring, due to determine which countries will join at the outset in 1999, than on the technicalities of qualifying.

On the entry criteria, the main remaining doubt is how near Spain will come to an overall budget deficit of no more than 3 per cent of gross domestic product. That it will be close this year is a point on which economic forecasters now seem agreed. Last year, the new centre-right government succeeded in meeting the target of 4.4 per cent, after putting down to the previous year a "hole" it discovered in the



Source: Ministry of Economy and Finance

accounts, which meant the 1995 figure was revised upwards from 5.8 to 6.6 per cent. To meet the target, it made cuts of Pta800bn in this year's budget, a quarter of the total coming from a widely unpopular freeze on public sector pay – a measure it will hardly be in a position to repeat next year.

For the time being, the government is counting on not having to make emergency spending cuts to hit the target, although Mr Rodrigo Rato, the finance minister, admits that "there is always a Plan B". Its calculations have been made easier by the fall in interest rates, reducing the expected Pta3,400bn burden of debt-servicing charges.

Public debt, which has risen steadily as a percentage of GDP since the mid-1980s, is clearly above the 60 per cent target. But, with other favoured candidates such as Belgium or Ireland having higher debt ratios, this is not expected to be a barrier – as long as the figure is proven to have finally turned downwards this year.

On all other counts, Spain is within sight of qualifying. It now has two years of currency stability behind it. Long-term interest rates are close enough to the lower-interest countries in the EU. And since the beginning of the year, falling food prices have hauled inflation down beyond expectations.

The 12-month inflation rate plummeted to 1.7 per cent in April, coming into line with the EU average. This was less than half the level in April last year, and down from 3.2 per cent at the end of 1996.

The bigger potential worries are a setback for the Emu project overall, or a political "fix" which would hold back the starting-point for Spain and Portugal in order not to leave Italy, the biggest of the southern European economies, isolated on the outside.

Although any such proposal would presumably be linked to firm guarantees of inclusion in a "second wave", it could lead to punishment for Spain on the financial markets.

The banking sector, now grappling with the task of converting its systems to the euro, sees no advantage in delay. This is despite the prospect, *according to calculations* by Banco Central Hispano, of losing some Pta94bn worth of annual business because of the single currency, in addition to one-off adaptation costs estimated at almost twice that figure.

"The costs have to be borne anyway, and bank losses will be much greater if we stay out," says Mr Jorge Hay, a general manager of the bank. A delay would, he admits, give banks an extension period for commission business such as foreign exchange for European tourists. But they would eventually lose that business, and in the meantime miss out on potential new international opportunities.

Offical promotion plans for the euro have fallen behind schedule, but Spanish public opinion appears broadly supportive. A recent poll in the Barcelona daily La Vanguardia showed 62 per cent in favour of switching from the peseta to the euro, and 22 per cent against.

According to sociologist Mr Amando de Miguel: "For the moment no great enthusiasm has been evident in Spain for the hypothetical euro, but no *hostility* either." Joining is presumed simply to be part of Spain's process of integration with Europe, which is taken as being synonymous with modernity. As to the implications of belonging, there has so far been little public debate.

Mr Pedro Fontana, president of Banca Catalana and the Barcelona-based Circulo de Economia, warned the government recently of "the fear that exists in the business world" that Spain will reach decision-time for the euro before tackling some key structural reforms.

"The risks of the single currency lie not in the convergence process, but in the day after," he warned.

Shadows from the past tarnish prospects

Continued from Page 1

the state broadcasting authority, gave the post in February to a fellow Popular party politician, with a brief to improve its finances. Like the broadcasting authority, the civil service and state-controlled enterprises have been through a wide-ranging purge following the change of government.

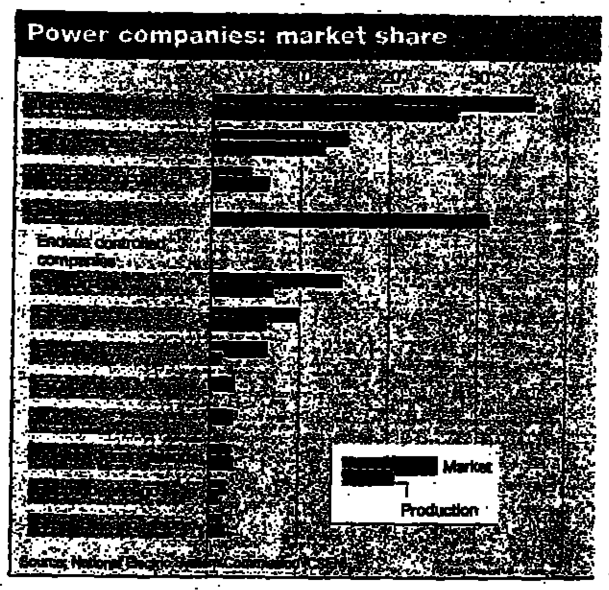
In their public slanging match, Socialist leaders accuse the government of "abuse of power" and talk of "liberties in retreat", and Popular party leaders question whether the opposition has the "legitimacy" or "moral authority" to make criticisms. Mr González hardly helped the atmosphere by launching an attack while on a visit to Mexico.

The increasingly tense divide between the camps is evident not just in Madrid, but is sometimes even more pronounced at local level in the provinces – a polarisation along the lines of old enmities that were thought to have been largely overcome in Spain's transition to democracy. Rightly or wrongly, many people now claim to see shadows from Spain's torn past. That is precisely what Mr Aznar, in his efforts to modernise his party and model it more in the style of Mr Adolfo Suárez, centrist prime minister in the first years of post-Franco democracy, set out to avoid.

ELECTRICITY INDUSTRY • by David White

Radical reforms ahead

Plans are under way to move the highly-regulated sector towards an open market



Spain's power industry, one of the traditional pillars of the economy, is facing what one senior executive describes as "a very radical change."

Plans already agreed between the government and the electricity utilities, designed to liberalise a sector which has until now been highly regulated, are scheduled to start coming into effect next January.

The so-called "Electrical Protocol", drawn up to meet European Union requirements, aims to move Spain towards an open market, with a new generation system based on competitive bids, in which production is granted to the cheapest generators.

The plan is due to be completed over a 10-year transition period and will largely dismantle an interventionist structure which includes fixed prices for electricity distribution and consumer supplies, fixed purchasing conditions for gas, and set prices and purchase quantities for subsidised Spanish coal.

Construction of new generating capacity will be liberalised, and so will primary energy markets, with the continuing exception, at least for the time being, of coal.

Consumers will progressively be given the opportunity to choose between electricity suppliers, starting with 400 big companies accounting for 30 per cent of total demand. Iberdrola, the largest private-sector utility, reckons it will take six or seven years to establish a free market.

The plan is linked to a staggered reduction in electricity prices. These have already been lowered by 3 per cent this year and the protocol stipulates further minimum cuts of 2 per cent next year and 1 per cent in each of the following three years. According to Mr Josep Piqué, the industry and energy minister, small and medium-sized enterprises can expect to see their electricity costs in real terms fall by 25-30 per cent over a five-year period.

The sector will be weaned away from a tariff system which has been based not on generators' actual production costs but on their fixed investment costs. The generators' share makes up about 60 per cent of final prices, with the rest going to transport and distribution and "external costs". The latter include a levy to pay for servicing Pta715bn of debt securities, the outcome of a decision 14 years ago to halt construction of new nuclear plants. "Prices now are not the product of the market, but of industrial policy," say Iberdrola managers.

The changeover to a competitive system, they say, is more complex for Spain with its mixture of state-controlled and private-sector companies than for countries which have until now had state power monopolies.

With annual turnover of some Pta2,000bn and 50,000 employees, the power utilities account for almost 30 per cent of Spanish stock market capitalisation.

The sector consists of one big state-controlled generator, Endesa, set up by the Franco regime in the 1940s and due to be fully privatised by the end of next year or 1999; a handful of regional utilities in which Endesa holds controlling interests; two large private-sector companies, Iberdrola and Unión Fenosa; and the smaller independent Hidrocantábrico utility in the Asturias region.

Spain has had to invent its own model for the deregulation process, to include compensation to companies for their sunk costs. Without this, Mr Piqué says, existing generators could not withstand new competition.

Over the 10-year transition period, the plan foresees total compensation of almost Pta1,700bn. Part of this is to cover coal usage and new investments. The rest, about Pta1,500bn, accounts for about 45 per cent of "sunk" costs, leaving companies to recover the remainder in the future market.

The principle of the reform, says Mr Piqué, is that "anyone can generate electricity from now on." The one constraint as to energy sources, apart from environmental considerations, involves special provisions to maintain a market for Spain's coal industry, on political and social grounds.

The state coal company Hunosa and private companies are wholly dependent on the electricity generators as an outlet. The industry is set to be run down, but only as a gradual process. At the moment, according to Mr Piqué, "practically no coal mining company would be able to compete with imported coal."

Critics of the protocol either see it going too far or not far enough. The main trade unions, on one hand, opposed what they described as "a simulation of competition", saying the plan would reduce security of supply, hit jobs and possibly raise costs in the medium-term.

On the other hand, the National Electric System Commission (CSEN), which has a consultative role, criticised the timetable as too slow, and price cuts as too modest. The government's approach, through discussions with the utilities but not involving consumers, was "not the best way of setting about deregulation of the sector," it said. Above all, it argued, the plan failed to tackle the corporate structure.

The balance between the different electricity groups and the territories they occupy has evolved in recent years through asset swaps and a series of mergers and takeovers. Starting with the formation of Unión Fenosa 15 years ago, these have included the creation of Iberdrola in 1991 through the merger of two leading private-sector utilities, and Endesa's controversial expansion through interests in distribution companies, culminating late last year in a Pta200bn operation to raise its stake in Sevillana, in the south, and Fecsa, in the north-east.

The CSEN argues that Spain's power sector has become highly concentrated, with relatively bigger groups than their counterparts in the US or in England and Wales. Endesa and Iberdrola between them hold about 60 per cent of installed generating capacity, and Iberdrola and Union Fenosa some 50 per cent of the customer market.

The plan obliges Endesa to reduce its controlling stake in the joint company which runs the high-tension grid, Red Eléctrica de España, and to sell a 7.5 per cent holding in Unión Fenosa. Mr Piqué also tried to get it to sell two northern Spanish interests. But he is firmly opposed to breaking up Endesa, in which part of the state's 67 per cent holding is due to be sold later this year.

"We believe this is the wrong path," he says. He argues that the company, since its beginnings heavily geared to fuel and coal-based generation, starts out with a potential handicap in an open market which analysts expect will to favour hydro-electric and gas-based producers.

Spain's main utilities, he says, will need all their financial muscle to compete with – among others – foreign companies in the Spanish market.

In the competition of the future, industry experts foresee a trend towards smaller power stations, using gas or imported coal. And Mr Piqué says the arrival on the market of new generators such as gas companies and oil refiners "could change the power generation panorama substantially."

TELECOMMUNICATIONS • by Tom Burns

Sea change for dinosaur

Spain's national carrier has emerged as an international deal-maker

Telecommunications in Spain have undergone a greater upheaval than any other sector of domestic business.

The industry used to express, more than any other, the country's inward-looking isolation. But now telecoms reflect, better than any other sector, Spain's ability to engage the global economy and to map out transatlantic strategies in partnership with top international operators.

Telefónica is rapidly rebalancing its tariffs *Picture: Neil Satchfield*

Rigorously regulated and controlled by the government, Telefónica's monopoly services kept Spain insular with remarkably cheap local calls and astronomically high long-distance charges.

The national carrier, wholly privatised since February, is now rapidly rebalancing its tariffs in order to compete with a rival operator, Retevisión, that is scheduled to start delivering services in December.

More importantly, Telefónica has emerged as an international deal-maker in the telecoms business and Retevisión has brought the sector's leading carriers into the Spanish market in a contest that sets the viability of its future business on a firm footing.

Telefónica punched successfully above its weight last month when it broke ranks with Unisource, the alliance of smaller European operators it had formally joined in 1996, to join the Concert venture of British Telecom and MCI of the US. The Spanish company said it had entered the peer group that best suited its ambitions and its defection shook global telecoms alignments.

Earlier this month, France Telecom, Germany's Mannesmann and Italy's Stet began to prepare competing bids to acquire a 60 per cent stake in Retevisión which the government intends to sell this summer. The group purchasing the second operator will steal a march on other carriers entering Spain at the end of 1998 when the domestic sector is wholly deregulated.

The suitors of both Telefónica and Retevisión realised two key facets about the industry in Spain: the potential of the domestic market and the even greater growth prospects of the Hispanic one.

Telefónica's business clearly reflects both features. It regularly reports double-digit growth in revenues from basic telephony in Spain where telephone penetration and line usage are below EU averages. But the brightest jewels in its crown are the string of Latin American operators that it controls through Telefónica Internacional, Tisa, its international division.

Retevisión is forecast to take a domestic market share of some 10 per cent by 2000, but Telefónica is confident that the expansion of telecoms in Spain will ensure continued earnings growth for the group on its home turf. The high returns from the cellular telephone business which was deregulated in 1995 for both Telefónica and for its competitor, Airtel, suggest that such projections are not misplaced.

The domestic market for basic services alone makes Retevisión an attractive property, but Spain's second operator could acquire even greater value if the group purchasing it uses Retevisión as part of wider strategy in Latin America.

Retevisión's strategic potential is certainly high on the agenda of Stet and of Endesa, the dominant domestic power group, who jointly lead one of the three consortia bidding for the operator. Endesa is an aggressive investor in Latin America and it is an ideal partner for the Italian company's existing telecoms interests in the area.

Such a strategy is a leaf out of Telefónica's book. Spain has become the largest European investor in Latin America and the path into the Hispanic world has been mainly forged by Telefónica.

Through Tisa, the Spanish carrier now operates 10m lines in the region, compared with 16m in Spain, and it provides services to more than 1m cable television subscribers and cellular telephone clients in the region.

With assets valued at some $5bn, Telefónica is the biggest foreign telecom group in Latin America and by 2000 the carrier expects Latin America to account for 50 per cent of its business, up from 17 per cent at present.

The key for achieving such a target is Telefónica's new positioning within the Concert orbit. The Spanish group plunged into the BT and MCI venture during a hectic week of deal-making that included the decision by Portugal Telecom to choose Concert as its international strategic partner and a share-swap agreement between Telefónica and the Portuguese carrier, valued at $241m, that will allow the Spanish group to take a 3.5 stake in Portugal Telecom and the latter a 1 per cent stake in Telefónica.

Within the Concert and Portugal Telecom framework, Telefónica is well set to expand in Brazil and in Mexico, two lucrative markets undergoing privatisation and deregulation. With the bulk of the telecoms market in Argentina, Chile and Peru already under its belt, and other assets elsewhere in Latin America, Telefónica is anxious to consolidate its presence in the continent and to become the principal north-south carrier in the Americas

Telefónica gained a key beachhead in Brazil late last year when it won control of CRT, the operator in Rio Grande do Sul, and it now has a valuable ally in Portugal Telecom as it prepares to bid for other regional carriers in Brazil.

The Concert alignment has also allowed the Spanish operator to break into Mexico, in partnership with MCI, by taking a 33 per cent stake in Avantel, the main competitor to Telmex.

The real value of the Concert alliance for Telefónica is nevertheless the creation of Telefónica Panamericana MCI, a 50-50 joint venture which, under Tisa management, will create a Pan American fibre optic network capable of providing customers in the Americas with integrated communication services. Tisa and MCI also plan to merge their respective businesses in Puerto Rico and to jointly develop services for the 28m-strong Hispanic market in the US.

For a once fiercely protected company that was looked upon as a dinosaur, Telefónica has come a very long way and Spain's telecoms sector is very far from being the Jurassic park it once was. Nowhere else in domestic industry has such a sea change taken place.

DIGITAL TELEVISION • by Tom Burns

New satellite TV project sparks a political battle

Bitter conflict has erupted over government moves to obstruct Prisa TV service

The arrival of digital television has sparked the nastiest political battle of Mr José María Aznar's first term in office. In the increasingly ill-tempered row, his centre-right government has been accused of turning back the clock to the day's when General Franco muzzled the media.

The spat is over an attempt by Grupo Prisa – a highly profitable conglomerate whose assets include El País, the biggest national newspaper, and Cadena Ser, the most successful domestic radio network – to develop a satellite TV service, Canal Satélite Digital, that within two years will offer first division football on a pay-per-view basis under an exclusive deal it signed with top soccer clubs at the end of last year.

The launch of the service at the beginning of the year by Sogecable, a Prisa subsidiary that is part-owned by France's Canal Plus, has been obstructed at every regulatory turn by the government.

The government has banned the decoder chosen by Sogecable for the reception of its satellite channels, and it is now attempting to severely limit pay-TV football, thus eliminating the company's main selling pitch.

For good measure, the government has orchestrated the creation of a rival digital TV service called Via Digital that is backed by Telefónica, the telecoms group, RTVE, the state-owned television network and Mexico's Televisa and a group of minority shareholders which includes the Recoletos media group owned by Pearson, publishers of the FT.

Via Digital, which made its first public presentation this month, says it will start delivering services in September using a decoder that has government approval but has yet to be commercially tested. It plans to broadcast 35 channels but there are doubts about its financial viability because it lacks the football rights that, so far at least, are exclusively owned by Sogecable.

In a development that is in theory separate but which Prisa claims is closely linked to its satellite venture, Sogecable's board of directors is being investigated by a Madrid judge over allegations of criminal fraud. This was initiated as a private prosecution by a controversial lawyer, by a conservative magazine editor and by a business journalist formerly employed by El País.

Orders by the judge limiting the movements of Sogecable's board members, including its chairman Mr Jesus de Polanco who is also chairman of Prisa, have been overruled by an appeal chamber; "eccentric" is one of the kinder epithets levelled at the judge by the pro-Prisa media.

The investigation is over allegations that Sogecable illegally financed a subscriber-TV service that began broadcasting 10 years ago with the deposits paid by its clients.

As far as Prisa is concerned, the regulatory moves, the start-up of the rival service and what it considers to be the trumped-up charges brought before the Madrid court amount to a wide-ranging conspiracy that seeks to break the media group and put Mr de Polanco and Mr Juan Luis Cebrián, Sogecable's chief executive and the distinguished founding editor of El País, in prison.

El País, Cadena Ser, the radio network, Canal Plus España, the TV channel which has grown to have have some 1.4m subscribers, as well as friendly media organs, claim that Prisa is being hounded by Mr Aznar's Popular party government because it supports the opposition Socialist party.

The charge is that Mr Aznar blames the media group's hostility for losing general elections that were held in 1993 and for failing to gain an overall majority in the elections that he won last year.

Since Sogecable's digital TV plans began to run into difficulties with the centre-right party in power, the Prisa media has stepped up its criticism of Mr Aznar to the point of alleging that freedom of expression is now in jeopardy under his vindictive government.

Prisa's case has been forthrightly defended by the Socialist party and in particular by Mr Felipe González, the opposition leader and former prime minister.

The latest twist concerns threats of a jail term allegedly made by the government's spokesman against Mr Antonio Asensio, a Barcelona media mogul and an initial supporter of the government-backed digital TV venture who switched sides and secured a keynote agreement on TV football rights with Sogecable.

As the controversy becomes increasingly nasty – columnists and commentators on pro-Aznar newspapers and radio stations charge that Prisa grew in the 1980s because it turned a blind eye to Socialist corruption and obtained favours from Mr González in return – Mr Aznar's government is begining to look uncomfortable.

This is unfortunate because the government's case is plausible although it is rarely heard above the "for" or "against" Prisa din of the chattering classes.

The government says, essentially, that it is merely following to the letter Spain's competition law, enacted in 1989 under the Socialists, which guards against the "abuse of a dominant position" as well as recent EU directives on universally compatible decoders and on wide public access to top sporting events.

It says it has not so much banned Sogecable's decoder, which is used by Canal Plus in France, as insisted that it use a decoder which would be available to all digital broadcasters.

The so far untried decoder planned by Vía Digital apparently meets this condition.

It also says that digital services should use the same satellite "platform" in order to allow subscribers to use a single aerial or dish and enjoy a greater choice of programmes.

The government insists that rather than intervening to hinder Prisa's business plans, it is acting to ensure a level playing field for competition and to prevent the start-up of a potential monopoly.

The fact that Canal Satélite Digital, the potential monopoly, is owned by a media group that is unreservedly hostile to the government has clearly focused the minds of the ruling Popular party. But the issue is real enough.

Some media analysts believe that if the Prisa's digital channel were allowed to go ahead with exclusive pay-TV football, the days of media pluralism in Spain could be numbered; the sector might not survive the financial imbalances created by such a development and media concentration would be inevitable.

Bilbao returns to normal after a triumphant entry by General Franco's nationalist troops. Political polarisation and the civil war ensued when the republic turned its back on the Canovas legacy *Picture: AP*

COMMEMORATING 1898 • by Tom Burns

Prime minister sets the stage

Mr Aznar is seeking a respectable ancestry for his Popular party

One of Mr José María Aznar's lesser-known decisions is his determination to keep abreast with centenary events commemorating 1898. This was a watershed year when Spain lost the remnants of its empire to rebel settlers, aided by US battleships, just at a time when other powers were staking their claims to colonies.

The prime minister's interest – "an obsession" according to one official – is odd, in part because he is held to be a cool-headed pragmatist who has little time for such ideas but mostly because 1898 is a year Spaniards would rather forget.

What is most intriguing about Mr Aznar's involvement in the anniversary is that he is reportedly anxious to use it as a platform for historical revisionism. He wants to vindicate a political system that was blamed at the time for the national humiliation of 1898 and has had little good said about it ever since.

The Philippines went in May that year when Admiral Dewey sank the Spanish Pacific fleet, and Cuba followed suit in July. Spain's Atlantic fleet was sunk – "picked off like pigeons in a shoot" according to US navy dispatches – for the loss of one American vessel when the Spaniards sailed out to sea from "the pearl of the Antilles", the richest colony in the world.

In what Spaniards call the year of the *desastre*, a dark mood of introspection took grip of Spanish society and prompted anguished calls for national regeneration. A group of gifted intellectuals, known as the *generación del noventa y ocho*, the '98 generation, concluded that Spain had, to all intents and purposes, ceased to exist as a nation.

The intellectuals announced two broad, and contradictory, explanations for national decadence: firstly, Spain's politicians had aped foreign nations and ignored Spain's own roots; and secondly, political gerrymandering and clerical obscurantism had denied society the benefits of European progress.

Either way, the scapegoat was a supposedly enlightened system of alternating conservative and liberal governments that been stage-managing sham elections for more than 20 years, ever since a military coup stamped out a chaotic republican experiment and ushered in a parliamentary monarchy.

The architect of the 1875 restoration of the Bourbon dynasty was a conservative statesman, Antonio Canovas del Castillo, who deeply distrusted the ability of his countrymen to govern themselves prudently, and who famously remarked that "a Spaniard is someone unable to be anything else."

The '98 generation, led by the philosopher Miguel de Unamuno, and its immediate successor, known as the generation of 1914 and which was led by fellow thinker and essayist José Ortega y Gasset, witheringly criticised the petty corruptions and pervading cynicism of the system that Canovas had created.

The hostility of the intellectuals fuelled the revolutionary impatience of working-class organisations and encouraged the military to meddle once more in politics.

Fending off army plots and insurrectionary strikes, the system staggered on until 1923 when a dictator, General Primo de Rivera, backed by the king, Alfonso XIII, closed down the discredited parliament.

In 1931, Unamuno and Ortega, who had become the monarchy's foremost critics, were both elected to the reopened parliament when a republic was proclaimed and Alfonso was exiled.

The republic turned its back on the Canovas legacy. What Spain got was political polarisation, a horrific civil war (1936-39) and another dictator in the form of General Franco who was to rùle until his death in 1975. Franco's chosen successor, Alfonso's grandson Juan Carlos, restored democracy as well as the monarchy.

Mr Aznar's sally into historical revisionism, as he ponders over the past 100 years of Spanish history, concludes that the '98 generation excessively scorned the politics of late 19th century.

Its diatribes snuffed out the possibility of an evolutionary democracy – and politics, as a result, would lurch between military dictators and left-wing republican experiments.

There was much that was worthwhile about Canovas's system for it left a modernising stamp on Spain with a stream of parliamentary acts that overhauled the civil service, local administrations and the legal system and initiated social legislation.

Its venalities were no worse than those that had existed elsewhere, such as the "rotten boroughs" of Victorian Britain.

Most important of all, the system could have perfected itself had not the intellectuals criticised it so effectively in the wake of *el desastre*.

This point is eloquently argued in a recent book, *La Libertad Traicionada*, (Freedom betrayed) by a Mr José María Marco, a young academic who takes a highly critical look at what he calls the rhetorical irresponsibility of the '98 intellectuals.

By vindicating the liberal-conservatives of 100 years ago, Mr Aznar is hoping to set the stage for next year's commemoration in a way that serves his political purposes; he is clearly seeking a respectable ancestry for his centre-right Popular party that will dissociate it from the authoritarianism of the Franco period.

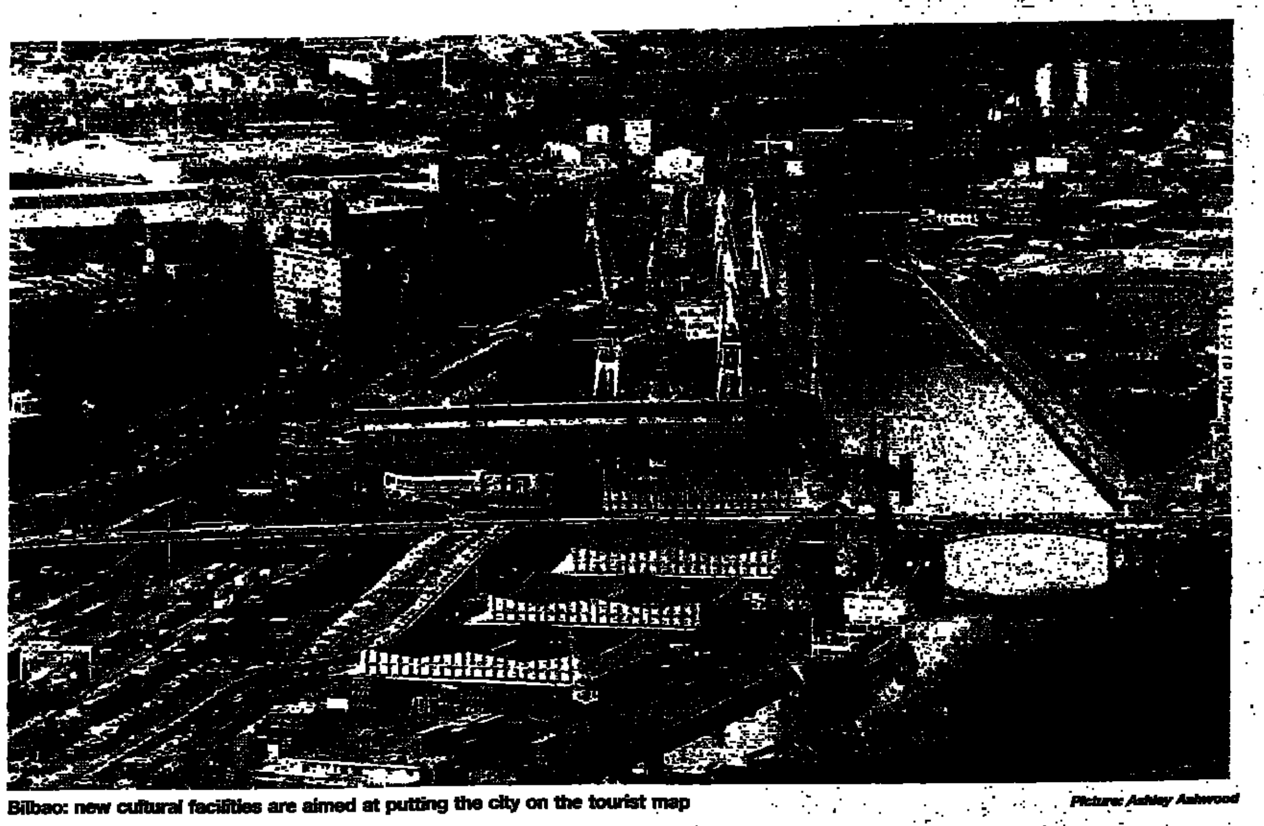
Mr Marco's polemical book is the first of several that will be published on the theme of 1898. It has already received the prime minister's approval.

He took the unusual step last week of attending its launch party.

BILBAO • by David White

A new face to the world

The museum is the centrepiece of a $1.5bn facelift and a symbol of Basque power



Bilbao: new cultural facilities are aimed at putting the city on the tourist map *Picture: Ashley Ashwood*

The Flower, the Fish, the Boot, the Nemo: these are some of the nicknames given to various parts of the new Guggenheim museum, now virtually completed on Bilbao's formerly industrial riverside.

As much a sculpture as an exhibition site, the museum seems to have captured the imagination and affection of *bilbaínos*, who have watched it going up for the past 3½ years.

With its sweeping curves and prows and shiny titanium covering, this showpiece of California-based architect Frank Gehry stands as the emblem of Bilbao's regeneration: its new face to the world.

Bilbao, the entry point for heavy industry into Spain 100 years ago, and up to the 1970s still the wealthiest part of the country, has suffered the long and painful decline of its traditional activities – the steel and ships evoked in Gehry's design – and the effects of a 20-year terrorist campaign in the Basque region.

A city which has pockets of 35 per cent unemployment, and which has grown used to seeing riot police, it is hardly known as a centre of the leisure industry, except perhaps by merchant seamen.

The museum is the centrepiece of a $1.5bn facelift which will also include, from next year, a new congress and music centre on an old shipyard site, and a new bridge by architect Santiago Calatrava.

A Norman Foster-designed underground railway is already in operation, its seashell-like entrances known as *fosteritos*.

Across the river from the Deusto Jesuit university, the Guggenheim Museum Bilbao is the product of the combined ambitions of the Solomon R. Guggenheim Foundation – which has set out to widen its international presence, in addition to the existing Peggy Guggenheim Collection in Venice – and local authorities.

It is also a symbol of Basque financial autonomy, a Pta20bn public investment made without recourse to central government funds from Madrid.

The money comes from the province of Vizcaya – the special Basque fiscal system means taxpayers pay their tax to provincial authorities rather than to Madrid – and the Basque regional government.

The land, formerly occupied by warehouses and a factory, was presented by the Bilbao municipality.

The aim is to make this Spain's prime modern art centre, and one of the best in Europe. The building is due to be finished at the end of this month and inaugurated a little later than planned, on October 3.

To mark the event, organisers sought to borrow Picasso's vast Guernica painting, seeing "a historic opportunity" to bring to the Basque country for the first time a work of great emotional significance, inspired by the destruction of the town of Guernica by German bombers during the Spanish Civil War 60 years ago.

Guggenheim museum: sculpture and exhibition site *Picture: David White*

The painting, moved from the US to Spain in 1981, now hangs in Madrid's Reina Sofía modern art museum, where experts this month dictated that the canvas was in no state to travel. The decision was widely seen in Bilbao as smacking of jealousy.

Under a 75-year deal, the museum will receive art works on loan from the Guggenheim New York museums, which have capacity to show only about 5 per cent of the total Guggenheim collection.

With more space than the original Frank Lloyd Wright building in New York, the Bilbao museum will be able to display the whole collection in a 20-year cycle, say officials.

In addition, Pta6bn of the total investment is set aside for the purchase, over four years, of a permanent collection of 20th century art. More than Pta1.7bn has already been spent.

Sited between a railway line, which is due to be pulled up next year, and the river Nervión, and extending underneath a congested suspension bridge, the museum is the focus of plans to reinstate the river as the backbone of the city.

Urban redevelopment of greater Bilbao, with a population close to 1m and 145ha of industrial ruins, is backed by a lobby group, Bilbao Metropoli-30, with more than 120 institutions and companies.

The historic centre, on the right bank, has been fully restored after severe flood damage in 1983. A rehabilitation plan is under way for the run-down district known as Old Bilbao on the other side of the river, also part of the original city founded in 1300, but in recent times better known for prostitution and drugs.

Regaining the riverside for Bilbao is the equivalent of Barcelona regaining its seafront in the transformation it underwent for the 1992 Summer Olympics. And, as it happens, Bilbao town hall is also nurturing Olympic ambitions, thinking of entering a bid for 2012.

The new cultural facilities are aimed at putting Bilbao on the tourist map. The number of visitors to the Guggenheim is expected to reach 500,000 a year by 2000, including a large proportion from abroad.

With a vibrant quality of life that belies its workaday reputation, Bilbao is only a short hop from France. But the green Michelin guide gives it just one page, with not even a "mérite un détour."

PRIVATISATION • by Tom Burns

Receipts swamp public coffers

Funds and individuals have switched to equity investments

Never has so much been privatised in Spain in such a short space of time. But what is less clear is whether the paring down of the public sector under the incoming Popular party has created a more competitive, transparent and consumer-friendly domestic economy.

It is estimated that privatisation receipts will total some Pta1,600bn this year – four times more than Mr José María Aznar's centre-right government had written in to its 1997 budget, and more than the Pta1,500bn realised during the 14 years of Socialist party government between 1982 and 1986.

Critics of the sell-off are to be found not only among trade unionists and on the left of the political spectrum; free-market liberals are also unhappy about the privatisation process.

Although the liberals welcome Mr Aznar's Thatcherite enthusiasm for "people's capitalism", they worry that that the government is more interested in the mounting pile of cash realised by the disposals than in stimulating competition.

Receipts totalling Pta607bn flowed in from the February sale of the remaining 21 per cent of state-owned equity in Telefónica, the hugely profitable telecoms operator. They will swamp the public coffers again after the summer when the government plans to offer to the markets half the 66 per cent stake it owns in the no less profitable power group Endesa. This disposal will be worth upwards of Pta750bn.

The most encouraging feature of the privatisation process is that it has nimbly accompanied a big shift in the investment preferences of domestic household savings. As a restrictive 1997 budget reduced borrowing requirements and falling inflation pegged down interest rates, funds and individuals switched from fixed income to equity investments.

The government fuelled the change by rushing through decree laws that reduced capital gains taxes on equity windfalls and by introducing measures that encouraged investors to pick and choose among funds.

The Telefónica issue, which was strongly weighted towards the domestic retail market, was a particularly successful example of the government's wider and deeper share ownership policy. One in five Spanish households reportedly applied for shares in the telecoms operator and the company more than doubled its equity base to embrace some 1.4m shareholders.

There was similar small investor excitement during the April sale of the remaining 10 per cent of state-owned equity in the Repsol oil, gas and chemicals group – the domestic retail tranche of this issue was more than 40 times oversubscribed – and everything suggests that, come October, there will also be a stampede to buy Endesa stock.

A less encouraging consequence of the disposals is a certain lack of transparency that could have accompanied the privatisation process. This is because the issues have been led and underwritten by big domestic bank groups which are also main shareholders of the companies whose government-held stock is being offered to the markets.

The problem of potentially conflicting interests is inevitable in economies such as Spain's where financial institutions offering a range of banking services are also leading industrial investors. By increasing the muscle of the big banks, the disposals could well have increased the complexity of the problem.

The chief liberal complaint is that there has been too much talk about "people's capitalism" and not enough about effective deregulation to ensure fair competition. The concern was justified in the telecoms sector where the government found itself trapped in a Catch-22 situation. The privatisation of Telefónica was followed by the launch of Retevisión, the state-owned television signals transmitter which has been reinvented as a second telecoms operator. The government discovered to its chagrin that policies designed to bolster the new operator inevitably penalised the profitability of the national operator that had so recently soaked up a swathe of household savings.

Attempts by the government to fix a low inter-connection fee (the price that Retevisión will have to pay Telefónica for hooking up to its lines) in order to kick-start Retevisión's business were greeted by howls of protest from the longstanding monopoly provider of telecom services.

The government struck what it claimed was an even-handed inter-connection deal that priced the access fee lower than Telefónica had wanted, but not as low as groups bidding for Retevisión had hoped for. Retevisión will be sold before the summer and will begin to deliver services before the end of the year.

Time will tell whether the second operator can flourish under the long shadow of the dominant telecoms group. If it succeeds in doing so, consumers may not necessarily be better off; the two companies will simply share the market as a duopoly.

The government's hesitancy over meaningful deregulation is also sharply illustrated by its approach to the privatisation of Endesa which accounts for nearly 50 per cent of domestic electricity generation and distribution. It has ignored calls to have Endesa broken up in order to stimulate competition in the industry because it is more interested in increasing the company's share.

Endesa has in the event become even more powerful. At the end of last year it increased its shareholding in two regional power groups and earlier this month it emerged as the joint leader of a consortium preparing a bid for Retevisión.

TECHNOLOGY

As pressures increase for speedier reductions in vehicle pollution, **Leyla Boulton** reports on options for achieving this goal

Gear change on car emissions

Nicholas Abson, a journalist turned fuel cell entrepreneur, believes the world is on the brink of a transport revolution akin to the car superseding horse-drawn vehicles.

Abson has a deep-seated interest in promoting this view. He is looking for industrial partners with which to manufacture vehicles powered by fuel cells. The cells are made by Zevco, his Belgium-based start-up company.

By generating energy from the reaction between hydrogen and oxygen, fuel cells could greatly help in freeing cities of air pollution, proponents claim. Road transport is the biggest single cause of urban air pollution and a significant contributor to carbon dioxide emissions linked to climate change.

"In 1900 you spent half the time looking after the horse, when along comes the car," says Abson. "All of a sudden, you don't need straw or hay, you just get a canister of gasoline from the drugstore. The same sort of step-change will come from the fuel cell."

But the most important question affecting this and other new technologies designed to tackle air pollution is how far governments can speed the pace of change. Environmental groups fear that powerful established industries have a vested interest in slowing progress.

Abson's enthusiasm for fuel cell technology is shared by Daimler-Benz, the German industrial group that makes Mercedes cars, trucks and buses. Last month it paid DM250m (£90m) for a 25 per cent stake in Ballard, a Canadian fuel cell company. Yesterday it unveiled a prototype for a fuel cell bus.

"The fuel cell is on its way and we want to be the first on the bandwagon," says Daimler-Benz. "We do not think that air pollution will be a problem for much longer, even with the combustion engine . . . but the fuel cell has other advantages. Its efficiency is much higher and it is absolutely quiet, too."

But the world's leading manufacturer of luxury cars and the lone entrepreneur have sharply differing views on how quickly this solution can become reality.

Daimler-Benz believes it will take "years" to achieve its goal of becoming the first mass-producer of a fuel cell powered car because of the time required to reduce the costs of fuel cell systems and to test prototypes.

Abson, who displayed a prototype for a fuel cell powered bus in central London last month, is already discussing with Robert Wright, a bus manufacturer in Ballymena, Northern Ireland, the possibility of mass-producing a fuel cell bus in two years' time.

Yet Zevco plans within a year to turn out fuel cells from its plant at Geel, with a total capacity of 1,500kW – or enough to power 100 London taxis – for demonstration purposes, rising in three years to 60,000kW a year.

Abson says he can achieve this early result by combining his fuel cells – based on proprietary technology he acquired from the Belgian nuclear research establishment for £100,000 – with batteries to provide peak power for quick acceleration.

Daimler-Benz, however, wants to build a fuel cell vehicle that dispenses with the battery. It is looking for a way to turn hydrogen into a liquid form to power such vehicles.

But Abson claims big companies have more than just technical reasons for being slower off the mark with fuel cells than he hopes to be. "The big manufacturers cannot enter the market so soon because the critical mass required for their technology would require them to make millions of units," he says.

"The other problem is they don't want to, because that would show the public it could have the technology sooner. What would companies then do with their existing plant to build internal combustion engine cars?"

These suspicions are shared by environmental groups such as Greenpeace.

London Transport Museum

Infernal combustion: fuel cell powered vehicles could be as radically new as the first horseless carriages, say advocates

But pressure for change is coming from state authorities in the US such as California, a pioneer in trying to speed the pace of technical change by requiring "zero emission" vehicles to account for 10 per cent of cars sold in the state by 2003.

In the UK, the House of Lords select committee on science and technology has urged the government to initiate a national fuel cell demonstration project with a UK-based vehicle manufacturer.

Most western governments are trying to promote intermediate technologies to reduce emissions significantly until they can be eliminated. Negotiations have begun in the European Union to agree new environmental standards for car exhaust emissions and fuels, in a two-stage programme based on deadlines in 2000 and 2005.

A central issue here, as with fuel cells, is how far the speed of change can be increased by regulatory and financial pressures from governments.

The talks, however, have prompted a three-way dispute between carmakers, the petroleum industry and EU institutions over calls for the 15-nation bloc to adopt quickly Swedish- and Finnish-style standards for low-sulphur diesel.

Johnson Matthey, the world's biggest producer of catalytic converters, says low-sulphur fuel is vital for the proper functioning of new traps it has developed to remove 95 per cent of particulates emitted by diesel engines. It is closely aligned with the carmakers, which feel that the oil industry should be made to carry a bigger share of the burden of the European Commission's "auto-oil" proposals.

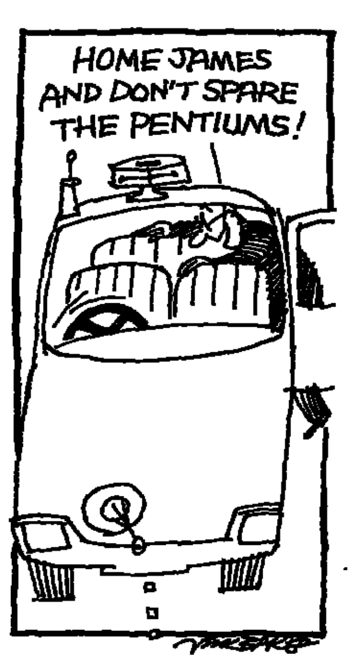
The European Parliament has demanded that the Commission toughen its proposals to allow member states to provide financial incentives for low-sulphur fuels from 2000, with a view to making them mandatory by 2005.

The parliament has used a report prepared for the Finnish and Swedish governments by Arthur D Little, the management consultancy, to attack the Commission proposals. The report says the costs to refiners of switching to low-sulphur diesel could be cut by 55 per cent by 2005 from the level it had projected for 2000.

But Michel Flohic, deputy director-general of Europia, the EU oil industry lobby group, argues that the environmental benefits of the move are unproven against an estimated cost of Ecu30bn (£20.88bn) of converting EU refining capacity.

The Commission hopes to get its proposals for fuel quality and emission standards for 2000 agreed by European environment ministers as early as possible. But the road towards proposals being adopted is fraught with difficulty, with Johnson Matthey warning that early agreement on 2005 standards is necessary to give industry sufficient time to adapt its products.

How long will it take fuel cells to replace the internal combustion engine? Johnson Matthey, which is also sole supplier of electrodes to Ballard for the manufacture of fuel cells, is not prepared to venture a public guess. It believes that fuel cells are unlikely to lead to a displacement of combustion engine vehicle manufacturing for at least a decade. It sees a market for low-sulphur fuels for at least "10 to 15 years after 2005".



Intelligent way to drive

Without benefit of human eyes, hands or reflexes, two Honda Accord cars will this summer cruise a stretch of Californian freeway. Driving 100m apart, they will independently detect and avoid an obstacle placed in their path.

The cars will move towards each other, each informed by a laser range-finder, three computer-linked video cameras, and magnetometers which 'read' signals relating to road conditions and direction from devices buried in the road surface.

When the cars come within 20m of each other, a wireless local area network will initiate communications between their control computers, keeping them cruising and maintaining their distance and speed, in a driving environment free of its greatest risk – human error.

The project, a joint venture between the University of California, Berkeley, and Honda, the Japanese carmaker, is a high-profile example of the private-public partnerships which federal and state governments in the US hope will underpin their efforts to install intelligent transportation systems (ITS) nationwide.

Automated highway systems, such as the Berkeley-Honda project which starts road-condition tests in August, are the showpieces of federally-sponsored integrated programmes in four regions of the US.

Attention is focused on southern California's "priority corridor" between San Diego and Los Angeles because of its congestion, its importance as a conduit for trade, the state's rich high-technology resources and its success in traffic management.

Los Angeles' and southern California's reputation as the gridlock centre of the world, is one of the most enduring myths to fog the region's reputation.

Traffic jams are frequent, as in any heavily populated area, but dead-stops are comparatively rare. The westward leg of Los Angeles' Santa Monica Freeway, for example, is reputedly the busiest road in the US. But even before the latest installations in its complex ITS management programme, the 350,000 vehicles a day which travelled the 17-mile stretch managed an enviable average speed of 30mph.

Last autumn saw the completion of the first phase of the Santa Monica Smart Corridor, an integrated system based on sensors, closed-circuit surveillance cameras, computerised traffic lights and on-ramp meters which govern the rate at which vehicles join the freeway flow.

At times of congestion, traffic can be diverted from the freeway and its approaches to five parallel streets where the phasing of traffic lights is automatically adjusted to allow for changes in volume.

Two roadside radio stations, which receive data updated every minute from radio and television stations and a web site, provide travellers with supplementary information.

Preliminary studies, which are being checked against real-time experience, predicted an increase of up to 5mph in average speeds and a 12 per cent decrease in the average time taken to pass through the corridor.

Much can be achieved with existing technologies and there is a great deal in the pipeline, but the biggest hurdle is the cost of developing, installing and putting together the experiences and benefits of such experiments into a statewide ITS.

Only 10 per cent of the $48m (£29.6m) spent on the Santa Monica project has come from the private sector. The task now is to identify the benefits to travellers and taxi, truck and bus companies, and put them into marketable services.

Without the motivation of profits, the private sector will remain reluctant to join the ITS revolution. And without private investment, the revolution – estimated to cost the nation $425bn over the next 20 years – could be a long time coming.

Christopher Parkes

LAW

Sex bias rules 'unlawful'

EUROPEAN COURT

German rules giving priority to women for high-level posts are contrary to European law even where they include a proviso allowing reasons specific to a male candidate to predominate, according to a *preliminary opinion* of the Advocate General of the European Court of Justice.

The case arose out of proceedings brought by Mr Hellmut Marschall, a German teacher, who had applied for a promotion. He was told that the job would go to a female candidate. Although they were both equally suitable, because fewer women than men were employed in the relevant pay and career bracket the woman had to be promoted under German law.

Mr Marschall brought legal proceedings seeking an order that the local authority should appoint him to the post.

Because of doubts that the German law in question was compatible with the European equal treatment directive, the case was referred to the European Court.

Advocate General Francis Jacobs, whose opinion is not binding on the Court, emphasised that the Court was not being asked to rule on the desirability of positive discrimination or affirmative action in general. The question it had been asked concerned solely the conformity of the German law with provisions of the equal treatment directive.

Mr Jacobs reviewed the Court's case law in this area *and, in particular, the* 1995 Kalanke case. In that case the Court concluded that national rules which guaranteed women "absolute and unconditional" priority for appointment or promotion, went beyond the promotion of equal opportunities, and over-stepped the limits of the exception for such promotion contained in the directive.

Mr Jacobs stated that it was clear the German rule was discriminatory and therefore contrary to the directive unless it fell within the scope of the exception.

Germany, the European *Commission and several* other European Union member states had submitted to the Court that the flexibility of the German rule and, in particular, the existence of the proviso under which reasons specific to the male candidate could predominate, rendered the rule compatible with European law.

Mr Jacobs disagreed. In his view the distinction between equality of opportunity and equality of result which lay behind the reasoning of the Court in Kalanke was conceptually clear. It was normally apparent on which side of the line a given measure fell and, in the present case, the proviso to the German rule did not affect the conclusion that the rule was unlawful.

He noted that, if the proviso were applied, it merely displaced the rule giving priority to women in a particular case.

It did not alter the discriminatory nature of the rule in general.

Mr Jacobs observed that in any event the proviso could only make the rule compatible with the directive if it was itself unobjectionable. He did not consider that to be the case.

The Advocate General found that the proviso appeared to envisage that so-called "traditional secondary criteria", such as marital or family circumstances, which were themselves discriminatory, would be applied where the proviso was relied on.

If an absolute rule which *gave priority to women on* the ground of their sex was unlawful, then a conditional rule which either gave priority to women on the ground of their sex, or gave priority to men on the basis of admittedly discriminatory criteria, was certainly unlawful.

C-409/95: Hellmut Marschall v Land Nordrhein-Westfalen, Opinion of Advocate General Francis Jacobs, May 15 1997.

BRICK COURT CHAMBERS BRUSSELS

INTERNATIONAL PEOPLE

Gray for new UBS operation

UBS, Switzerland's most powerful bank, has snubbed the top management of PDFM, its UK fund manager, and turned to NM Rothschild, the UK merchant bank, to find a chief for its newly independent Swiss asset management operation. Roger Gray, 39, head of Rothschild's institutional asset management business, will head UBS Asset Management Switzerland from July 1.

The Swiss banks are among the world's biggest fund managers, yet the performance of their Swiss-based fund managers has not been as good as some of their international competitors.

Last year UBS announced that it was spinning off its Swiss fund management operation into an independent entity and acknowledged that this was being done because institutional customers accorded "greater credibility" to a company which was being run independently of the rest of the group.

By contrast, PDFM manages assets of SFr120bn, and its success has been credited to the fact that it has always been operated at arms length from the rest of UBS.

UBS did not make a public announcement of Gray's appoint*ment and has not provided any* details of his qualifications for one of the most sensitive posts in UBS's fund management operations.

Gray will report to Gian Pietro Rossetti, head of investment advice and fund management in Switzerland, which suggests that he will not be the man responsible for improving the group's overall return on its fund management business and building its presence in the all-important US market.

Nevertheless, there has been speculation that UBS's decision to look beyond PDFM for its new Swiss investment chief may be partly due to the fact that PDFM's own performance has lagged behind the competition recently because it has been over-cautious on the US market.

William Hall, Zurich

Scalise leaves Apple for trade body

George Scalise, Apple Computer's executive vice-president of operations, has resigned to become president of a Silicon Valley industry trade group.

Scalise was "right-hand man" to *Gil Amelio, chairman and chief* executive. He joined Apple 15 months ago. Amelio recruited him from National Semiconductor where the two had previously worked together.

Scalise's departure from Apple comes as the personal computer company is struggling to reverse a sharp decline in its market share and return to profitability.

"I feel that we've addressed the issues that Apple had to tackle to get back on the road to profitability, and there's a team in place to get the job done," Scalise said.

Apple recently revamped its top executive team to include several former managers from NeXt Software, the company run by Apple co-founder Steve Jobs that was acquired by Apple earlier this year.

Among Scalise's responsibilities at Apple has been management of the division that makes its Newton hand-held computers. His departure has sparked renewed speculation that Apple may spin-off this product group.

Scalise, 63, is heading back to the semiconductor industry, where he has spent most of his career. He will become president of the Semiconductor Industry Association, a trade group that has spearheaded battles on behalf of US chipmakers.

Prior to joining Apple Computer, Scalise served as chief administrative officer for National Semiconductor. He has also served as a senior executive at Maxtor, Advanced Micro Devices, Fairchild Semiconductor, and Motorola.

Louise Kehoe, San Francisco

Ratliff signs on for five more years

Robert Ratliff, the 65-year-old executive chairman of Agco of the US, one of the world's four biggest tractor makers, clearly relishes his job. He has decided to spend another five years at the helm of the company, which he has guided since it started seven years ago.

Over this period, Agco has grown rapidly, mainly through Ratliff's policy of acquiring well-known tractor companies around the world such as US-based Massey-Ferguson and Fendt of Germany.

Ratliff said he had decided to stay in a full-time executive's role after "taking a good look" at the possibility of retirement. "I decided I was having such a good time I didn't want to leave," he said.

Last year Agco, bolstered by the more than $1bn worth of acquisitions since it started, had sales of $2.3bn, making it the third biggest US tractor company after Deere and Case. New Holland of Italy is the final member of the world's big four farm equipment companies.

Ratliff has hinted that more acquisitions are likely. His goal is to increase Agco's sales by a further $1bn a year over the next two to three years, most of this coming from buying up companies.

Industry watchers believe Ratliff will spend most of his time in a strategic role, scouting for likely takeover targets and also having a big say in how new companies are integrated.

Much of the day to day management is in the hands of Jean-Pierre Richard, Agco's chief executive, who joined last year from Insitufoam Technologies.

Peter Marsh, London

ON THE MOVE

■ Warwick Jones has joined DRESDNER KLEINWORT BENSON as a senior vice president and head of research based in New York. He will also act as a senior analyst for Latin American mining. Since 1994 Warwick has been a senior mining analyst for Robert Fleming in New York.

■ Jean-Pierre Crinelli has been appointed as chief operating officer of KAUFEL GROUP, an international company specialising in the design, manufacture and distribution of emergency and other lighting products and systems.

■ BANKERS TRUST has appointed Richard Jackson as managing director and *senior banker to head* the firm's corporate coverage for clients located in the Middle East. Previously, Jackson served as president and chief executive of Citistate in Washington DC.

■ Rudolf Hug, executive board member of CREDIT SUISSE FIRST BOSTON has left the group. As a member of the executive board of Credit Suisse from 1987 to 1996, Hug was initially responsible for commercial banking, North America and various Swiss branches. From 1993 he was head of the international business section.

■ Ronald Allen, chief executive, chairman and president of DELTA AIR LINES, has announced his retirement on July 31. Allen, who will also resign from the board of directors, will work with the board to find a successor and will stay on as a consultant and advisory director.

■ STANDARD CHARTERED BANK has appointed Peter Wong as head of personal banking, Hong Kong and China. He will based in Hong Kong. Prior to joining he was Citibank's director of sales, services, and distribution channels for North Asia.

■ *Erling* Naper has been appointed president of the INTERNATIONAL UNION OF CREDIT AND INVESTMENT INSURERS (BERNE UNION) Naper has been vice-president of the Berne Union since April 1995. His appointment follows the death of former president Gerhard Praschak.

■ AUSTRALIA & NEW ZEALAND BANKING GROUP has appointed Peter Marriott, currently group general manager for credit/risk management, as chief financial officer and company secretary.

■ SALOMON BROTHERS, together with its Brazilian affiliate Banco Patrimonio, have announced that former Brazilian Minister of Finance Mailson F. da Nobrega has joined the firm's Brazilian team as a consultant. In this capacity da Nobrega will provide political and economic advisory services to the firm's clients.

■ Keith Price has been appointed to the board of ICF KAISER INTERNATIONAL. Price is currently a consultant to various US and international engineering and construction companies. ICF Kaiser is one of the United States' largest engineering, construction, program management, and consulting services companies.

■ TEVECAP, Brazil's leading pay television operator and programming distributor, has appointed Raul Rosenthal as chief executive officer. He joins from Abril, TVA's parent company.

■ HITACHI SOFTWARE, a division of Hitachi Europe, has appointed Robert Webb as business development manager specialising in the JP1 systems management product set and Eric Wells as technical support consultant.

■ The ARMAGNAC HOUSE OF JANNEAU has appointed Willie Phillips, 57, as managing director. He joined the company in early May. Phillips was managing director of Macallan - Glenlivet from 1979 until its takeover by Highland Distillers and Suntory in 1996.

■ The Hong Kong government has approved a one-year extension to the appointment of Anthony Neoh as chairman of the SECURITIES AND FUTURES COMMISSION, the local securities watchdog.

■ *Italy's ROLO BANCA* has appointed Carlo Pesenti to its board. He will serve until the next annual shareholders meeting, taking the place of the recently deceased Giorgio Rossi.

■ Sergio Siglienti, chairman of Italian insurer ISTITUTO NAZIONALE DELLE ASSICURAZIONI has been appointed chairman of the holding company which will control Banco Di Napoli. Earlier this year, Italy's Treasury agreed to sell off a 60 per cent stake in the bank to INA and Banca Nazionale del Lavoro.

■ Colombia's BANCO COMERCIAL ANTIOQUENCO (BANCOQUIA) has appointed Gabriel Jaramillo Sanint to the post of president. He replaces Jorge Julian Trujillo Agudelo, who resigned.

■ HOECHST has appointed Martin Fruehauf, former chief financial officer, as head of the group's supervisory board. Fruehauf, who retired from Hoechst's management board last year, will succeed Erhard Bouillon.

■ Kris Wadia has been appointed head - database and direct marketing, by the OVERSEAS-CHINESE *BANKING CORPORATION*, Singapore. He was previously regional circulation and marketing director with Pearson Professional (Asia Pacific), part of Pearson.

■ NIKKO *SECURITIES*, Canada, has appointed William G. Mclean, 38, as president and chief executive. Since 1994, he has been responsible for institutional fixed income sales at Levesque Beaubeien Geoffrion.

■ Wayne Meikle, a director at financial technology firm BRAID SYSTEMS, has been appointed to head Braid's office in Singapore, from where he will run operations in Singapore, Hong Kong, Manila and Melbourne.

■ Deborah Foye Kuenstner and Paul Warren have joined PUTNAM INVESTMENTS' international equities group as senior portfolio managers in the core and value team. Kuenstner joined Putnam from DuPont Pension Fund Investments in Wilmington and Warren joins from IDS Fund Management in Hong Kong.

■ Allen Horlick has been appointed president and managing director, NBC Europe. He is currently president and general-manager of *WRC-TV*, NBC's owned and operated television station in Washington DC.

International appointments

Please fax information on new appointments and retirements to +44 171 873 3926, marked for International People. Set fax to 'fine'.

Renaissance pomp to rococo decadence

Venice's commercial and creative history has been recreated in London, writes **William Packer**

The image of Venice, *la Serenissima*, that Most Serene Republic, whether in high renaissance pomp or rococo decadence, is so familiar, from Carpaccio to Tiepolo, that we tend to take the art and industry that sustained such magnificence for granted. Those richly brocaded Titian nobles, those Veronese banquets, all silks and glitter, those Longhi ladies seductive in velvet skirts and lace fringes, off to the *ridotto* with masks to hide their blushes. But who made it all? Where did it come from?

Venice rose to great power, of course, on the strength of her trade. "Once did She hold the gorgeous East in fee" indeed, and it would be easy to suppose that all such rich stuffs simply came in by boat. Up to a point they did, but usually as raw material. The Venetians were not just traders, but makers and manufacturers too from the earliest times, making rather more than the gew-gaws that seem to satisfy the modern tourist.

The first craftsmen's guilds were founded in the 13th century and survived, jealously guarding their secrets and prerogatives, until suppressed, along with the ancient Republic herself, by that prescriptive, proto-socialist 28-year-old, Buonaparte, in 1797. The various parishes and *sestieri* were soon colonised by particular crafts and trades – the furriers around Campo S.Margarita; the dyers and silk-weavers out in Canareggio; the hatters near S.Lio; the wool-workers near what is now the Piazzale Roma in S.Croce; the shoemakers near the Frari. Their names live on in the streets they once dominated. The *Merceria*, the street of the haberdashers, is still the principal shopping path from S.Marco to the Rialto. The *calle dei Botteghe* runs from the door of S.Stefano towards S.Samuele where, half-way along, the appropriate sign of an old boot may still be seen, carved above the door of what is now a smart shop.

Serenissima, the exhibition now at the Accademia Italiana, at once sets out and celebrates this rich social, commercial and creative history. With a nod towards the once-traditional fair in the Piazza on Ascension Day, it takes each broad area of interest, setting out the work in wooden booths, just as the guilds themselves showed off their wares. It is splendid stuff, a choice trawl through the civic museums of Venice, the Correr especially, and other private and specialised collections. But rich as it is, it is made admirably clear by this manner of display, informative, intriguing and readily assimilable.

The history is there for the reading, through the development of Venetian taste and fashion, refinement and decadence, rise and fall – though by the very nature of the chance survival of the ephemeral, the weight of emphasis rests on the later period, particularly the 18th century. But fascinating though that history is, Venice "born to bloom and drop", we are thrown back onto the objects, not as example and illustration to a story but for what they are: beautiful, poignant and exquisite objects, indeed works of art, in themselves.

'Angela Adorni Sbardelini': seductive in velvet and lace

Lace, for example, can be dense, dull stuff except to the specialist. But here these filmy, light confections seem to live in the air. Indeed they were thought of in such terms, *punto in aria*, almost a sort of airy drawing, unique to Venice. And shoes a kind of sculpture? Why not, when we see these platform soles from the late 15th century, 20 inches high, like thigh bones, to be slipped onto the tiniest of feet. An 18th-century postillion's boot stands like a coal-scuttle, clear proof against lightning.

And there are the clothes, for Venice was the glass of fashion and the mould of form almost to the last. The art of tailor and dress-maker is beautifully shown, stomachers and corsets spread out like fans, embroidered waistcoats, tailcoats and tricorn hats. They all have something of the same sculptural quality, if somewhat softer, especially the women's dresses, so rich upon the surface and yet so simple in the form. Lightly puffed-out, bodices above and panniers below, they seem to float, "like swans asleep", through the display.

It is a most enjoyable exhibition, full of oddity and delight, with its pattern and sample-books, its fans and embroidered mittens, its brocaded caps for the man-about-Venice to put on at home when he took of his wig, its horn-rimmed tinted specs, its silk purses. And through it all there is to be caught, perhaps, an authentic whiff, a glimpse in the corner of the eye of a past long gone. "Dust and ashes; dead and done with, Venice spent what Venice earned": maybe, but a ghost still walks.

Serenissima – the Arts of Fashion in Venice 1200-1800: The European Academy & the Accademia Italiana, 8 Grosvenor Place, SW1, until July 20. Sponsored by the Italian Trade Centre, the *Guild of Master Shoemakers* of the Brenta; and Magic of Italy.

Opera/**Andrew Clark**

Courageous Britten

At the very end of the Glyndebourne production of *Owen Wingrave*, Sir Philip Wingrave reaches up to his grandson's dangling corpse, and sings the family ballad about steadfastness in battle. Moments earlier, the Wingraves had shunned their young scion for defying family military tradition. Owen's death, of course, makes everything all right. As long as the Wingraves die fighting, even if the battle is against themselves and their past, the family can hold its head high.

By resisting the temptation to go soft in this scene, and instead playing up its dramatic irony, Robin Phillips's staging rams home Britten's pacifist theme in a far more telling way than even the composer can have intended. It sets the seal on a production which, though by no means flawless, is a welcome addition to Glyndebourne's Britten repertory.

Glyndebourne had a touchy relationship with Britten during his lifetime, but has done him proud since his death. The festival's decision to take the 1995 Touring Opera production of *Owen Wingrave* into its summer season required courage. This is the least-known and least-loved of Britten's operas – there were a good number of empty seats at the first night last Thursday – and it is also the most difficult to stage successfully.

Those difficulties have nothing to do with the television format for which Britten originally conceived the work. As testified by the composer's former assistant, Colin Graham, in the *Glyndebourne programme* book, Britten always had his eye on a stage production. Performances elsewhere have proved that there is no practical problem which an imaginative director cannot overcome.

The real reason for the opera's Cinderella status is its lack of ambiguity – a fault unfortunately highlighted in this revival, directed by Daniel Dooner. Although Hisham Ali's single set is evocative and spacious, it tends to underscore the opera's monotone pace. It is no match for the Hyde Park scene, where a contrast between the splendour of military parade and the violence of Owen's battlefield vision is essential. And the slide-show in the Act 1 finale simply does not ring true: it contradicts the period flavour of Ann Curtis's Edwardian costumes, and is no more successful than Britten's dinner-table scenario in illustrating the hidden thoughts of the Wingrave household.

Nevertheless, I would recommend this production, because even below his best, Britten – like Verdi – is still a fascinating theatre composer. The score is a masterpiece of economy and description: Ivor Bolton and the London Philharmonic vindicate it in a myriad of nerve-tingling moments, not least the ecstatic glow of the Peace aria. Bolton uncovers more tension and torture than this music has traditionally yielded, and the orchestral responses are thrillingly exact.

Gerald Finley is an extremely impressive Owen: singing with gently-focused tone and crisp diction, he is the picture of well-bred dignity. Neil Jenkins's Sir Philip does not entirely convince – he is simply not forbidding enough – while Christopher Ventris turns Lechmere into a chirpy, eager-to-please commoner. Elizabeth Gale repeats her neurotic Mrs Julian, Eiddwen Harrhy her pale Miss Wingrave. The problem with all the Paramore women, including Ann Taylor's childishly manipulative Kate, is that they are too heavily caricatured. Steven Page and Vivian Tierney, as the Coyles, have an easier job, and they make the most of it.

All in all, then, a worthwhile effort – but probably not enough to win over the doubters.

Alastair Muir

Gerald Finley and Christopher Ventris

Dresden Music Festival/**David Murray**

The Italian connection

There is a Dresdner *Musikfestspiele* every year, for two weeks around now. Not enough people know that. Though Dresden has been one of Europe's great musical capitals for some three centuries, it got lost for too long behind the Iron Curtain; and although many westerners remember that saturation fire-bombing by the Allies in 1945 reduced the centre of this venerable, cultivated city to near-rubble (and killed something like 170,000 people), fewer know what has become of it since.

What has become of it involved restoration on a heroic scale, and has taken a long time. One by one the grand edifices of the *Altstadt*, the old city, have been faithfully rebuilt from the original plans, using the old stones that survived the holocaust: the grand baroque pavilions of the Zwinger with its great collection of paintings, the municipal *Schloss*, the *Kreuzkirche*, the marvellous Semper opera-house. Only the lofty *Frauenkirche*, Dresden's beloved "Church of Our Lady", awaits reconstruction – due for completion in time for the city's 800th anniversary in 2006, which looms larger for Dresdeners than the mere millennium.

With this splendid setting on the river Elbe, it would be strange *not* to have a festival. There are many guest performers, but Dresden has a distinguished home team: its Saxon State Opera at the Semper (about which more another day) and its famous orchestra, the *Staatskapelle*, not to mention the Dresden Philharmonie and the MDR Radio Symphony.

Dresden likes to be known as Germany's "Florence on the Elbe", and its close musical connections with Italy go back a long way. The particular theme of this year's festival is "Italiener in Elbflorenz", from the Renaissance to the present day. For the occasion, the festival's director Michael Hampe chose to revive Paisiello's opera *Il re Teodoro in Venezia*, his long two-act "heroic-comic drama" from 1784, in the charming State Theatre.

It was rewarding to hear, but for a light comedy it made a long sit: the audience shrank during the interval. That was a pity, for the imaginative colour and variety of the score came into much sharper focus in Act 2. It impressed Mozart greatly at its Vienna premiere, and left unmistakable marks on his own *Marriage of Figaro* and *Don Giovanni*.

Paisiello's librettist Casti concocted the plot from a ludicrous historical episode, the brief reign of an obscure Westphalian baron known as King Theodore of Corsica – until he went bankrupt, which is why we find him in Venice, hiding from creditors. The situations and characters, if not the basic story, are pretty much out of stock, though Hampe strove to animate them with his usual care for homely human detail.

Among the mostly Italian cast, even *buffo* veterans like Alberto Rinaldi's King and Claudio Desderi's rampant exiled Sultan seemed slightly muted in their pasteboard roles; and Marcello Lippi had to sing the duped innkeeper Taddeo with a sore throat. The conventional young lovers were Maurizio Comencini and Rachele Stanisci, both very personable.

But it took two non-Italians to ignite real comic sparks: the delectable American mezzo Suzanna Guzman as the King's dodgy sister, and the Welsh Stuart Kale as his secretary, an Ealing-quality study in sly nods and winks.

If Paisiello and Casti never achieved the comic drive of a Mozart *buffo* opera, the work revealed lyrical riches as it went on (and on), and some beautiful orchestration. By the end, one was quite won over. And the ending is delightful: out of the blue, the "composer of *Il re Teodoro*", grateful for the inspiration that has made his opera a hugely profitable success, buys the hapless King's way out of debtors' prison.

Casti had one bright idea after all.

INTERNATIONAL ARTS GUIDE

■ BERLIN

EXHIBITION
Kupferstichkabinett – Sammlung der Zeichnungen und Druckgraphik Tel: 49-30-26629598
● Paul Klee – Späte Zeichnungen: display of drawings produced by the Swiss artist in the years 1939 and 1940, including the cycle of 16 works entitled "Der Inferner Park"; to Jun 8

■ BOLOGNA

OPERA
Teatro Comunale di Bologna Tel: 39-51-529901
● La Brocca Rotta: by Testi. Conducted by Massimo de Bernart. The programme also includes a performance of *Cavalleria Rusticana* by Mascagni; May 30

■ BONN

OPERA
Oper der Stadt Bonn Tel: 49-228-7281
● *Parsifal*: by Wagner. Conducted by Jeffrey Tate, performed by the Orchester der Beethovenhalle Bonn and the Oper der Stadt Bonn. Soloists include Harry Peeters, Stephen Richardson and Franz-Josef Selig; May 29

■ COLOGNE

EXHIBITION
Museum Ludwig Tel: 49-221-2212379
● Jasper Johns: retrospective exhibition devoted to the work of the American artist spanning four decades of artistic achievement, from his early paintings of flags and targets to recent densely layered canvases. Drawn from public and private collections throughout the world, the exhibition comprises approximately 200 paintings, works on paper and sculptures, including recent work never before shown to the public; to Jun 1

■ COPENHAGEN

OPERA
Det Kongelige Teater – The Royal Theatre Tel: 45-33 69 69 69
● Der Freischütz: by von Weber. Conducted by Jan Wagner, performed by the Royal Danish Opera. Soloists include Christian Christiansen, Irene Theorin and Lise-Lotte Nielsen; May 30

■ DUBLIN

CONCERT
National Concert Hall Tel: 353-1-6711888
● Paul Fanning: performance by the violinist, accompanied by the pianist David Brophy. The programme includes works by Mozart and Brahms; May 30

■ EDINBURGH

CONCERT
The Queen's Hall Tel: 44-131-6683456
● Yevgeny Morozov: the pianist performs works by Chopin, Liszt and Schumann; May 28

■ LONDON

CONCERT
Barbican Hall Tel: 44-171-6384141
● *London Symphony Orchestra*: with conductor Christian Thielemann in works by Strauss and Beethoven; May 29
St. John's, Smith Square Tel: 44-171-2221061
● Christopher Maltman: performance by the baritone, accompanied by the pianist Malcolm Martineau. The programme includes works by Schubert; May 28
Wigmore Hall Tel: 44-171-9352141
● The Emperor Quartet: performs works by Mozart, Wolf, Strauss and Schubert; May 30

DANCE
The Place Theatre Tel: 44-171-3801268
● No-No: choreographed by Kenneth Kvarnström to North African music, performed by the Helsinki City Theatre Dance Company. Part of The 1997 Turning World contemporary dance festival; May 28, 29

EXHIBITION
National Portrait Gallery Tel: 44-171-3060055
● Pursuit of Beauty: exhibition examining the eternal quest for beauty by both sexes and changing notions of what beauty actually is. The display has interactive elements, including the opportunity for visitors to try on top hats, wigs, corsets and doublets. A number of portraits from the NPG's collection will be exhibited; from May 30 to Sep 7
Victoria & Albert Museum Tel: 44-171-9388500
● The Cutting Edge: 50 Years of British Fashion: exhibition tracing the history of British high fashion from 1947-1997 by exploring four distinct themes: Romantic, Tailoring, Bohemian and Country. Over 150 garments drawn from the V&A's Dress Collection are displayed; to Jul 27

■ LOS ANGELES

DANCE
Ahmanson Theater Tel: 1-213-972-0700
● Swan Lake: choreographed by Matthew Bourne to music by Tchaikovsky, performed by the Center Theatre Group; to Jun 15

■ LUDWIGSBURG

CONCERT
Residenzschloss Tel: 49-711-2555555
● Guarneri Quartet: performs works by Schubert, Medelssohn and Brahms. Part of the *Ludwigsburger Schlossfestspiele*; May 31

■ MADRID

EXHIBITION
Fundación la Caixa Tel: 34-1-4354833
● Madrid-Barcelona, 1930-1936. A chronicle of two Cities: exhibition examining the political and cultural histories of the two Spanish cities during the country's civil war. Artists represented include Picasso, Miró, Dalí and Gargallo; to Jul 27

■ MUNICH

EXHIBITION
Neue Pinakothek Tel: 49-89-23805-195
● Claude-Joseph Vernet. 1714-1789: exhibition of work by the French painter who worked for King Louis XV as a sea and landscape painter. Shown alongside the pieces by Vernet are a number of works by his contemporaries, including Lorrain, Boucher and Dughet; to Jul 6

■ NEW YORK

CONCERT
Alice Tully Hall Tel: 1-212-875-5050
● New York Chamber Symphony: with conductor Gerard Schwarz, perform works by Weill and Beethoven; May 31

DANCE
New York State Theater Tel: 1-212-875-5570
● Circle of Fifths: choreographed by Christopher d'Amboise to music by Glass, performed by the New York City Ballet; May 31

EXHIBITION
Museum of the City of New York Tel: 1-212-534-1672
● A Dream Well Planned: The Empire State Building: display featuring photographs, drawings and models; to Dec 7

■ PARIS

CONCERT
Centre Georges Pompidou Tel: 33-1-44 78 12 33
● Ensemble Intercontemporain: performs works by Zimmermann, André, Neuwirth, Stockhausen and Maresz; May 29

■ VIENNA

CONCERT
Konzerthaus Tel: 43-1-7121211
● Wiener Philharmoniker: with conductor Nikolaus Harnoncourt and violinist Gidon Kremer in works by Berg and Schubert; May 29

EXHIBITION
20er Haus Tel: 43-1-7996900
● Valie Export: Split: Reality: display of work by the multi-media artist who uses photography, film and video to examine the relationship between the human body and new technologies; to Jun 15

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European Money Wheel

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COMMENT & ANALYSIS

Martin Wolf

A monetary constitution

The various criticisms of the chancellor of the exchequer's decision to grant the Bank of England operational independence are wrong on all counts

Mr Gordon Brown, the UK's new chancellor of the exchequer, deserves congratulations for giving operational independence to the Bank of England. As important, he has provided a highly satisfactory alternative to UK membership of the planned European monetary union.

Many on the left already condemn the chancellor's decision as another in a long list of betrayals by Labour governments. Many on the right denounce it as a violation of parliamentary sovereignty. Both groups are wrong. He has created a sensible division between political responsibility and operational accountability.

Five principal criticisms of Mr Brown's innovation have been advanced.

- The system introduced after sterling's expulsion from the exchange rate mechanism in September 1992 has been tested and found excellent.
- Dividing responsibility for fiscal and monetary policy is foolish.
- Inflation is a silly target for monetary policy.
- The Bank of England is incompetent and hysterical about inflation.
- The time is not ripe.

Mr Brown's decision, complained Mr Kenneth Clarke, his predecessor, in the FT of May 9, "abandons a tried and tested approach that has delivered the best inflation performance for decades". Yet that regime was a desperate expedient, introduced after the collapse of the previous policy. It has also only been in operation during a period of recovery from deep recession. To create much inflation over these years would have taken heroic efforts.

Fortunately, Mr Clarke's efforts were not heroic. But he took risks. He was also lucky: his most important piece of fortune was the unexpected appreciation of sterling, up 17 per cent since last August, on a trade-weighted basis. Without this, Mr Clarke would have missed his target for retail price inflation, of 2.5 per cent or less by the end of the parliament.

The post-1992 regime has not been properly tested. It could not have been over anything short of a full cycle. But the UK's tradition of ministerial control over monetary policy has been found wanting: the country has suffered two of the largest recessions in any of the big advanced countries since 1950.

The second criticism is that operational independence makes the desirable co-ordination of fiscal and monetary policy impossible. True, a wise, benevolent and trusted government might use discretionary control over fiscal and monetary policy to deliver modest inflation and optimal stabilisation. Anyone who believes the UK will have such governments has been living on another planet for the last half century.

Governments need to be subject to checks more effective than an election every five years. This is why no significant industrial country operates with the discretionary control over fiscal and monetary policies many in the UK still yearn for. Fixed exchange rates – in operation until 1972 – are such a check. Central bank independence is another.

On the inflation target, the fundamental objection is to reliance on a nominal (or monetary) target, rather than an objective for real activity. A subsidiary objection is to targets for inflation rather than for another monetary variable – money gross domestic product, for example, or the nominal exchange rate.

Pursuit of an inflation target should not be allowed to generate instability in the real economy in the short to medium run. Fortunately, this can be achieved by setting the inflation objective for some time in the future and being able to override the target in the event of large supply shocks. Beyond this it is risky to go. The knowledge needed to stabilise real activity precisely is unavailable in principle, partly because an economy's behaviour is contingent upon what people think the government is up to.

As for which nominal target to choose, the important difference is between the exchange rate, on the one hand, and nominal GDP or inflation, on the other. For small, open economies, such as Austria, fixing the exchange rate against a dominant trading partner makes sense. For the UK, it is a different matter, since exports to the European Union are only about a sixth of GDP. Under a fixed exchange rate, the political and economic benefits of monetary autonomy would be lost for the sake of an indirect control over prices in a small part of the economy and partial elimination of exchange rate fluctuations. The gain would not offset the loss.

The proviso is that long-run domestic monetary credibility is secured, as the new proposals should do. This matters because higher inflation cannot bring enduring benefits to real output. The alternative view – that the printing press turns paper into wealth – is as plausible as the alchemists' belief in a stone able to turn base metal into gold.

As for the difference between targets for inflation and money GDP, this is a small matter. The former is probably better, partly because it is clearer. Since GDP must be evaluated when forecasting inflation, inflation targeting cannot ignore real activity. But it also will not prevent fast growth, as is so often alleged. It only halts inflationary growth.

All the same, the formulation of the current target – as 2.5 per cent inflation or less – is a mistake, because it suggests 2.5 per cent is a ceiling. "Or less" should be deleted. The aim should be the highest level of economic activity consistent with expected inflation of 2.5 per cent – roughly what Mr Alan Greenspan's Federal Reserve is trying to achieve in the US.

The fourth objection is to the performance of the Bank of England. Contrary to popular wisdom, its record since 1992 has been quite impressive. It has been right in its disagreements with the chancellor over interest rates. Those who think it has been mistaken merely admire the chancellor for his cavalier treatment of his own target.

The charge that the Bank has been unduly pessimistic about inflation is also false. If one examines its February forecasts for inflation two years ahead, one finds that it has been in the lowest 25 per cent of the forecasters in three of the past five years and in the bottom half in the other two. Helped by the increased prestige of its new responsibilities, the Bank can become an unrivalled forecaster, as the Federal Reserve already is.

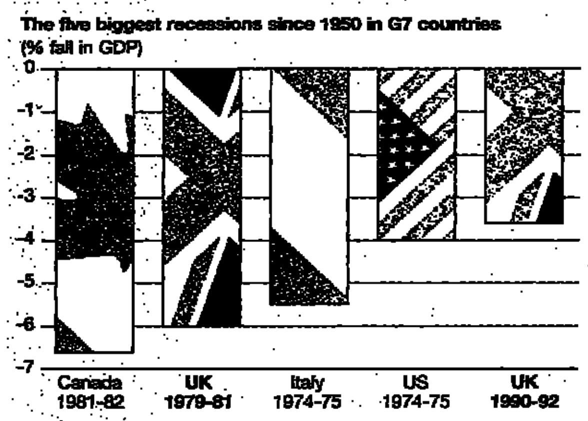
Finally, critics complain that now is the wrong time for independence. Again, this is the opposite of the truth. Monetary policy needs to be tightened. It will be far easier for the chancellor to leave those painful decisions to the Bank. Similarly, if he wants to persuade his colleagues to stick to his fiscal guidelines, he can argue that this is the way to obtain the loosest possible monetary policy, in view of the inflation objective given to the Bank.

True, Mr Brown will be unable to push down sterling, cost what it may. For that, one must give thanks. Sterling's real appreciation is a misfortune. Yet it is not as damaging as an attempt to push the rate down by open-ended unsterilised intervention would be in present economic circumstances.

The decision to give the Bank independence was both brave and right. The chancellor has given Britain a sensible monetary constitution. He has also given it a more than satisfactory alternative to monetary union: more democratic, more accountable; and more likely to deliver economic stability and low inflation. At a stroke, the "wait and see" policy on membership of a single European currency has been made perfectly workable. It is an excellent start.

The unstable economy

The five biggest recessions since 1950 in G7 countries (% fall in GDP)



Source: What Labour Can Do, Richard Layard

Personal View · Zbigniew Brzezinski

The germ of a more secure Europe

Nato has won acceptance of its right to enlarge by recognising Russia's status

The Founding Act on Relations between Nato and Russia due to be signed in Paris today has not precipitated a shift in Moscow, as some predicted it would, towards a communist-chauvinist political takeover. Nor has it reignited the cold war. It involves two major compromises. First, and most important, Russia is reluctantly accepting that the enlargement of the Euro-Atlantic alliance is unavoidable and that a dominant US political presence in Europe is an enduring reality. Second, the west is recognising that Russia, by virtue of its size, must be granted special status, but only in a geopolitical setting that forecloses any residual Russian imperial ambitions.

The Act states specifically that Nato has expanded and *will continue to expand* its political functions. This acknowledgement of Nato's expanding role, and explicit references in the agreed text to Nato's "new members", mean Russia is acquiescing to an enlarging Euro-Atlantic security "space". That is of historical significance and – assuming good faith – represents a break with Moscow's efforts since 1945 to push the US out of Europe.

In turn, the Joint Nato-Russia Council that will be formed is an acknowledgement of Russia's role as a regional power: it is entitled to be Nato's partner – though not its member – regarding common security issues. Potentially, that arrangement could inject Russia into Nato's internal decision-making processes by diluting, or diverting, the central role of the North Atlantic Council (NAC). Some very responsible advocates of Nato's expansion fear the Joint Council might in time even supplant the NAC. This would grant Russia a disruptive voice within the alliance without demanding the obligations of formal membership.

The extent to which that might happen depends on how the consultations in the Joint Council are conducted and on how co-operative Russia proves to be. Obtuse and heavy-handed Russian efforts to become part of internal Nato deliberations are likely to prove counter-productive. Indeed, any continued Russian agitation against the ratification of Nato's decision to expand is likely to circumscribe the political influence of the Joint Council. The Council might then become a debating club in which Russian complaints against Nato were formally registered but in practice ignored. On the other hand, a co-operative Russia might gain greater informal access to Nato and even become a de facto associate, the precedent for which is provided by Russia's participation, under Nato command, in the SFOR stabilisation force in Bosnia.

This is not necessarily a cause for anxiety. A more responsible and co-operative Russia is in everyone's interest. Moreover, it is difficult to envisage a genuinely co-operative Russia being altogether excluded or isolated. A democratic and responsible Russia – one that did not threaten the Baltic states nor make territorial demands on Ukraine – would have to be included in the deliberations of the European states, and it is certainly better to do so in a Euro-Atlantic context.

The agreement being signed in Paris contains the potential for satisfying Nato's maximum objectives while gratifying Russia's minimum need for some formal recognition of its past status as a global power. Nato has succeeded in avoiding concessions that would have created "second-class members" as pledges made not to deploy either substantial Nato forces or nuclear weapons on the soil of the new allies are essentially a realistic – but also a contingent – recognition that there is no need for either. Implicit is the notion that adverse conduct by Russia could alter that self-restraint.

One area of doubt is the status of the designated candidates for Nato membership after July, but before formal admission – presumably not until April 1999. It would be ironic if the new candidates were to be left in a no-man's land pending the required unanimous Nato ratification of their membership while Russia sits in the Nato-Russia Council. At the very least, the candidates should be granted some provisional status in the NAC.

Finally, the agreement provides the legal basis for continued expansion of the alliance by declaring there can be no "new dividing lines or spheres of influence limiting the sovereignty of any states" and by stressing the "inherent right [of all states] to choose the means to ensure their own security". For the Baltic states, and even for Ukraine, this means that the doors to Nato will be kept open and that Russia will have no right to demand they be shut.

The Act has the potential to shape a more secure Europe closely linked to the US. It also creates the preconditions for a more stable relationship between the Euro-Atlantic alliance and Russia, while blocking any lingering nostalgia Moscow may have for a special sphere of influence in central Europe. Fifty years after the rejection of the Marshall Plan by Stalin, which led to the isolation of the Soviet Union and the division of Europe, there are the tentative makings of a more constructive future.

The author was national security adviser under President Jimmy Carter

LETTERS TO THE EDITOR

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Market always shows that it has the measure of monopolies

From Mr Christopher Lingle.

Sir, The current transatlantic furore surrounding the proposed merger of Boeing and McDonnell Douglas clearly indicates the extent to which antitrust legislation has outlived its usefulness on both sides of the pond.

By relying on the bogus proposition that markets are static and not dynamic, both US and European antitrust law subordinate reality to political expediency. As I teach my students during the first week of an introductory economics course, in the absence of government interventions that restrict competition, businesses earning monopoly profits will eventually be disciplined by the market. During the 1960s, US antitrust lawyers raised the spectre of a domestic automobile industry dominated by General Motors. Today, losing sleep over GM's market position is as absurd as worrying about a buggy whip monopoly in the past century.

The market destruction of monopolies is so certain that I offer my students an "A" without exams if they can identify a producer whose actions are injurious to the community by under-producing and/or over-pricing, and which has survived over the long run without government restrictions on the entry of competitors. I have made this offer for the past 20 years of teaching economics and have yet to deliver on the deal.

Perhaps Mr Karel Van Miert, the European Union's competition commissioner, can provide the answer.

Christopher Lingle,
department of economics,
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Ohio 44106-7206, US

Government induces sense of déjà vu

From Professor Robert Neild.

Sir, The antics of the new UK government give me a disturbing sense of déjà vu.

In 1964, when the Labour party came to power after many years in opposition, it committed itself (before consulting its chosen economic advisers, of whom I was one) not to devalue, although the pound was overvalued. To assert its authority, it turned Whitehall upside down, in particular creating a new department of economic affairs without considering how it would work. In attempting to avoid devaluation, it introduced gimmicks, notably the import surcharge and the selective employment tax, causing costly turbulence in the economy and the civil service. It was all to no purpose. It was forced into devaluation in November 1967. When Lord Wilson died, the obituaries criticised him for having failed to devalue earlier.

Now Labour has come to power having made a political commitment not to raise taxation although a substantial increase is needed – or a substantial cut in public spending that breaches the party's electoral promises. (See the letter from Professor Wynne Godley and Dr John Wells, May 23.)

The chancellor has made a show of changing the responsibilities of the Bank of England before working out what the new arrangement should be. He is talking of gimmicks – the windfall tax and more privatisation – to paper over the budgetary problem. He no doubt feels he must honour his promise on taxation, just as Lord Callaghan and Lord Wilson felt they must honour their promises not to devalue. Like them, he is likely to damage the economy and to be remembered for that – unless he has the wisdom to see that untenable promises are better broken early than late.

The repeated mistake has been to renounce for political reasons the use of an essential economic instrument – in 1964 the exchange rate, now taxation.

Robert Neild,
Trinity College,
Cambridge CB2 1TQ, UK

A precedent that must not be allowed

From Professor Ernst Steindorff.

Sir, Commenting on the threat by German public banks to withdraw their support for the euro if the Commission were to find they had received illegal state aid, your editorial "Eurobluff" (May 6) questions whether under such circumstances the euro is worth having.

I would ask what the euro could be worth if in future any important group of banks, backed by their national government, could threaten sabotage if they were not exempted from rules of European law and procedure? *Principiis obsta!*

The Commission should not create a dangerous precedent. It should rather remain firm and disregard the present German pressure and attempt at what you call "blackmailing". The euro will, to some extent, be a creature of European law. Its stability presupposes law abiding-states and banks which refrain from making the euro a political hostage and an object of political bargains.

Ernst Steindorff,
Hofbrunnstrasse 25,
81479 Munich,
Germany

Re-writing language

From Sir Anthony Bamford,

Sir, It was reported in the Financial Times ("Donald Tsang ponders a cash mountain", May 15) that when Hong Kong reverts to China on July 1 £55.5bn of fiscal and foreign exchange reserves will effectively be handed over to China. Do these reserves not belong to Britain?

I also understand that entry into Emu would require gold reserves of individual member countries to be handed over to the central bank in Germany.

My dictionary defines reserve as "retain possession or control of". Perhaps a more modern Whitehall dictionary would say "transfer possession or control of".

Who is rewriting our language? I think we should be told.

Sir Anthony Bamford,
chairman and managing director,
JC Bamford Excavators,
Rocester,
Staffs ST14 5JP, UK

Driven more by fear

From Mr M. Yokoyama.

Sir, Regarding Observer's item on Japanese banks ("Going out on a limo", May 19), I do not think the definition of a banking crisis by Mr Koll is adequate, at least in the case of current Japanese crisis: A few months ago, Bungei Syunjyu, an influential Japanese monthly magazine, reported that some desperate banks really would like to eliminate limousines but fear that being regarded as not even able to keep their limos would cause a run by depositors.

I would redefine a banking crisis as "when the managing director has to be seen in his limo to assure depositors and to avoid a run".

M. Yokoyama,
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Brazil

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Tuesday May 27 1997

A warning from France

The strong showing by the left in Sunday's French election is not only the sharpest of rebuffs for President Jacques Chirac and for Mr Alain Juppé, his loyal Gaullist prime minister. It is also a warning for the next French government – whatever its political colour – about the difficulties inherent in modernising the country's economy. And it is a warning to leaders in the rest of Europe about the growing risks associated with their pet project, monetary union.

When he called the snap election almost a year ahead of schedule, President Chirac could not have expected as tight a contest as this. If Sunday's pattern is repeated in the second round next weekend, he could well find himself ruling in cohabitation with Socialists and Communists. Such a government would at best pursue incoherent policies on the economy and Europe; at worst, it could reverse much of the progress France has made in adjusting to European integration and global free trade over the past 15 years.

To squeeze back in the final round, Mr Chirac's centre-right alliance will be hoping that those of its natural supporters who abstained or defected to Mr Jean-Marie Le Pen's racist National Front return to the fold. But even if it scrapes a majority, it is hard to overstate the damage that has already been done to the government's political authority.

In his two years in office Mr Juppé has been a cautious reformer, moving crab-wise in pursuit of the liberalisation required to improve economic performance and the fiscal stringency needed for France to join the single European currency. His reward from the voters was a howl of pain.

Little distinction

The problem for whoever succeeds him as prime minister is that it is easier to imagine what the electorate was protesting against – chronically high unemployment, government spending cuts, globalisation – than what it was voting for.

Leaving aside the Communists and the National Front with their opposition to Emu, there is little of substance to distinguish the Socialists from the governing RPR/UDF coalition in European policy.

On the economy, the choice is between five more years of timid reform and the Socialists' promises of public sector job creation and cuts in working hours. The former will not transform France's sluggish economic performance; the latter – surely the most archaic programme of any potential party of government in the west – would make it worse, and would be next to impossible to deliver while fulfilling the Maastricht convergence criteria.

Political impasse

The result could be a deepening political impasse and growing popular frustration at the inability of mainstream politicians to reconcile the role of the state with the pressures of international markets. And here lies the risk for Europe and for Emu.

Mr Lionel Jospin, the Socialist leader, speaks with a forked tongue on monetary union. The "conditions" he has purported to seek – that Italy be included and that EU governments exercise influence over the European Central Bank to promote jobs and growth – are a wish-list that differs little from demands the outgoing government tried and failed to insert into Emu negotiations.

But they strike an undoubted chord with the French electorate, and a distinctly dissonant one in Germany. No German government could agree to them and hope to be re-elected. Equally, if they are not met and Emu takes place on schedule in 1999, French politicians could feel increasingly tempted in the next few years to blame Emu, and Germany, for many of their country's woes.

European leaders, and Chancellor Helmut Kohl in particular, should ask themselves whether the risk of such divisiveness could outweigh the benefits of securing monetary union on schedule.

Iran votes for change

There can be no mistaking the yearning for change shown by Iranian voters who last Friday buried the favoured presidential candidate of the mullahs in a landslide. On a 94 per cent turnout of the nearly 33m Iranians aged 15 and over eligible to vote, Mohammad Khatami, the former culture minister sacked in 1992 for liberalising the Islamic revolutionary regime's social controls, defeated front-runner Ali Akbar Nateq-Nouri, the conservative speaker of the *Majlis* (parliament), by a margin of nearly three to one. The west should seize this remarkable outcome as a chance to rethink its ragged approach towards Tehran.

Mr Khatami, a middle-ranking Shia cleric and intellectual, is not exactly an outsider. But he has decisively won the confidence of Iran's intellectuals and the Islamic left, its women and its young. He was also backed by businessmen anxious to see the state-dominated economy opened up, and by the technocrats brought into government by the departing president, Ali Akbar Hashemi Rafsanjani.

Partly, Iranians were reacting against the invasiveness of the mullahs and their street-gangs – the tightly-enforced dress and social codes, the censorship of books, music and films. Mr Khatami, a linguist and student of de Tocqueville and German philosophy, is by contrast the most outward-looking leader to emerge in Iran since the 1979 revolution against the Shah.

More predictable

He is not, however, *the* leader. Ayatollah Ali Khamenei, the supreme spiritual guide and successor to the late Ayatollah Khomenei, remains in charge. But a reconfigured leadership is emerging which could produce more stable policy-making and an Iran more predictable to its neighbours and the west. Mr Rafsanjani becomes number two, absorbing some of Khamenei's powers as head of the suggestively named Assembly for Diagnosing the Interests of the Regime.

During eight years as president, Mr Rafsanjani had pulled Iran's faction-ridden leadership away from zealots urging the export of the revolution towards a "diagnosis" of Iran's national interests and developed Iran's range of international ties. Tehran has also been assiduously rebuilding relations with the Arab states of the Gulf; in central Asia it has been politically cautious if commercially aggressive; in Afghanistan it has excoriated the medieval fundamentalism of the Taliban.

Rational governance

Indeed, painting the Nateq-Nouri camp as the Iranian Taliban was one of the Khatami campaign's most resonant tactics in the election, which also focused on the creation of jobs and the curbing of inflation and corruption. These early signs of a realigned leadership intent on more rational governance should spur a review of US and European Union policy.

Washington's efforts to isolate Iran have boosted the regime's image of itself, justified its pervasive controls and permanent mobilisation, and done little to weaken the economy. EU anger at US attempts to make it fall into line on sanctions has also enabled Tehran to play the western allies off against each other.

A more nuanced and unified approach is advocated in the current issue of Foreign Affairs. Two former US national security advisers, Zbigniew Brzezinski and Brent Scowcroft, and a former finance minister to the Shah, Jahangir Amuzegar, argue for the use of carrots as well as sticks. Such an approach would centre on the most threatening aspects of Iran's behaviour – its alleged attempts to acquire nuclear weapons capability or sponsorship of terrorism – and set these against rewards for co-operation like loans and investment to modernise Iran's oil, petrochemicals and gas industries. This rational approach will look more compelling if Iranian voters have, as it appears, cleared the way towards more rational government in their country.

The FT Interview • Boris Nemtsov

New man in bandit country

Russia's most famous provincial reformer tells **Chrystia Freeland** of his plans to help Boris Yeltsin shake things up in the Kremlin

Before agreeing to abandon the safety of his provincial governorship for the treacherous world of Moscow politics, Mr Boris Nemtsov, Russia's first deputy prime minister, had a question for the Russian president.

"I said, 'Boris Nikolaevich, how do you want to go down in history?'," Mr Nemtsov recalls, sitting in the large White House office he now inhabits with easy familiarity. "'As a good and great tsar who led Russia out of troubled times into a period of normal democratic development with a growing economy and without social conflicts. Or do you want the contrary?'"

The Kremlin chief's answer was exactly what Mr Nemtsov wanted to hear. "He said, 'I do not want to live in a bandit state'." And on the strength of that declaration, Mr Nemtsov – then governor of Nizhny Novgorod and a proud outsider whose autobiography is titled *The Provincial* – came to Moscow to help the tsar do battle with the "bandits".

Less than three months after roaring into the cabinet, Mr Nemtsov has begun a frontal attack on many of the vested economic interests he blames for Russia's "condition of stagnation, with a high level of corruption and banditry".

The new minister has made significant inroads into the power of Russia's natural monopolies. He has installed a trusted first lieutenant, Mr Boris Brevnov, as head of the national electricity company, and forced Gazprom, the natural gas behemoth, to pay taxes to the government and dividends to its shareholders. He has begun to break the state's cosy relationship with a coterie of friendly banks and is introducing a system of open, public tenders for all state procurement. Mr Nemtsov is hoping to overhaul Russia's expensive and ineffective social welfare system.

If the government manages to follow through on these initiatives, Mr Nemtsov is confident that Russia's time of troubles will draw to an end. "The most terrible time is behind us," Mr Nemtsov predicts. "This year is decisive in the sense that if the [necessary] decisions are taken – if changes are made in the tax laws, if we succeed in controlling the prices of the natural monopolies and changing the absurd system of social support – then I am convinced that growth in Russia will happen."

Repeatedly broken promises of economic growth from the Russian leadership mean Mr Nemtsov's upbeat forecast is likely to provoke healthy scepticism. But a slew of mildly hopeful economic results, including indications that Russia's decade-long economic decline may have bottomed out and signs that flight capital is being repatriated, add some credence to his pledge. Even more significant is the extent to which the minister has not hesitated to identify, and to unpick, the mistakes made in the first five years of President Yeltsin's administration.

The biggest error, Mr Nemtsov believes, was the government's failure to regulate Russia's natural monopolies – lumbering, Soviet-era titans whose inefficiency and corruption has stunted economic growth. "Monopolies became sources of stagnation in the economy," Mr Nemtsov says. "They put a brake on the development of potentially competitive sectors, and became the sources of a great amount of corruption."

Nor has Mr Nemtsov hesitated to challenge the authority of these corporate giants. Even Gazprom, which he says accounts for a quarter of the state budget and has a correspondingly influential voice, has come under fire. Mr Nemtsov bluntly describes a 1998 agreement between Gazprom bosses and the government as "theft". Yesterday he replaced it with a more western-style arrangement, depriving Gazprom managers of lucrative share options that could have made them immensely rich.

Mr Nemtsov is equally scathing in his assessment of share-for-loans auctions, a series of shady transactions which transferred control of some of Russia's most valuable companies to government insiders at bargain prices. These sell-offs are "the birthmarks of our dark past", he says.

All future privatisations, including that of Sviazinvest, a controversial telecoms deal, will be fair and open.

More menacingly, at least from the standpoint of the Russian financial tycoons who were the chief beneficiaries of the shares-for-loans sales, Mr Nemtsov predicts that their results will be disputed in the courts by those who missed out. "If the government behaves itself dishonestly then it could all be very quiet, but if it behaves honestly then everything must end with a big conflict."

These are fighting words, and one might have expected that the 37-year-old former physicist from the provinces would soon have been devoured by Moscow's economic masters. But that has not happened yet. One reason may be that Russia's robber barons are beginning to tire of the free-for-all of the past decade and to long for respectability and stability, says Mr Nemtsov.

"The lobbyists have become fed up. They are simply tired of the constant underground battle and many of them want understandable, clear rules, which are identical for everyone," Mr Nemtsov says, lighting a second cigarette and sipping his tea. "You could say, broadly, that the period of initial accumulation of capital – which always, even in America, was accompanied by banditry, corruption, lobbyism, and so forth – that period is ending in Russia."

Yet, as Mr Nemtsov hastens to add, this virtuous transformation depends upon the sustained political will of Mr Yeltsin, whom Mr Nemtsov refers to only half ironically as "tsar-father". In politics, "only power is respected", Mr Nemtsov says. "So long as I have support from the president and the people, I think it will be easy for me. If not, then I think all those who have become scared and quiet could again appear."

As well as backing from the "tsar-father", Mr Nemtsov says one of the great strengths of the current administration is the unity among its ministers. He insists emphatically that he and Mr Anatoly Chubais, Russia's other first deputy prime minister, are allies rather than rivals. The two men have no choice but to co-operate, he says, because both of their political careers depend on a single achievement: bringing economic growth to Russia.

As Mr Nemtsov sees it, this task is particularly pressing for Mr Chubais, whose involvement in the painful, scandal-ridden first stage of economic reforms has made him a national pariah. "Chubais and I both have one goal – to ensure economic growth. Chubais needs that like the air itself, because with his reputation in Russia, that is the only way he can prove he is not a camel."

Mr Nemtsov also says the two young first deputies enjoy the backing of Mr Victor Chernomyrdin, the prime minister and long-time patron of the natural monopolies, including Gazprom of which he was the former head. "Chernomyrdin is a very wise man. He takes the right decisions, he does not have this rigid quality that you see in some old people," Mr Nemtsov enthuses.

Some of this praise should undoubtedly be attributed to Mr Nemtsov's reluctance to antagonise Mr Chernomyrdin, who remains a powerful political force notwithstanding the steady erosion of his authority by the new cabinet team. But, at least superficially, the grey veteran of the Soviet era does seem to have found a modus vivendi with his young deputies.

Mr Nemtsov is less conciliatory towards Russia's regional leaders, the powerful provincial governors who just months ago counted Mr Nemtsov among their number. Now installed in Moscow, the minister who is viewed as one of Russia's leading democrats takes an authoritarian line towards the provinces.

Consider his message for Mr Yevgeny Nazdratenko, the popular elected governor of Russia's Primorsky region on the Pacific coast, whose mismanagement has brought a wrenching energy crisis. "We will bring order to Primorsky region with steel: those who get in our way will be swept away," thunders Mr Nemtsov. "He will answer for organising disorder. We have courts, we have a president, we have provisions for a state of emergency. So do not worry. He will do what we tell him and that will be all."

This is the tone of a self-confident leader who may well see himself as a prospective "tsar-father", when Mr Yeltsin's term runs out in 2000. Although Mr Nemtsov disclaims presidential ambitions, he is the country's most popular politician.

Yet even as Mr Nemtsov seeks to shake up Russia's powerful monopolists, he is kept earthbound by the tremendous constraints of the country's still-powerful, and largely unreformed, Soviet-era bureaucratic machine. Mr Nemtsov complains that the system is "inertial" and that it is "very difficult to push through decisions".

He himself is a living example of one of the most absurd and harmful relics of the Soviet regime – a registration, or *propiska*, system which requires the residents of Russia's main cities to have living permits. Coveted Moscow *propiskas* are so hard to acquire that Mr Nemtsov has not yet managed to obtain one, making it impossible for his family to move with him to the capital.

"They will not register us," says Mr Nemtsov, who one day might well be presiding over the Kremlin. So for now: "I am a homeless person, a bum."

OBSERVER

Cultural clashes

[illegible]

events will have to be cancelled. And the priests at Mount Athos, the inaccessible theocratic state in northern Greece, are growing tetchy. They have threatened to call off an exhibition at Thessaloniki's new Byzantine museum of rare icons and other treasures from their monasteries – billed as the cultural year's top attraction – unless the Socialist government coughs up long-promised funds to refurbish their crumbling cells.

Rentavote

■ It seems that France's mainstream political parties are as shameless in their efforts to save money as they are desperate to win votes in the country's general elections. The left-wing magazine Evenement du Jeudi has revealed that numerous candidates of the ruling Gaullist RPR party have as campaign headquarters low-rent property owned by the city of Paris – itself controlled by the RPR.

Not to be outdone, the right-wing newspaper Le Figaro is fighting back with a piece suggesting that the Socialist party candidates in Paris are occupying accommodation formerly owned by Urba, the shady "consultancy" organisation at the centre of an illegal socialist party financing scam which helped boot the left out of office in 1993.

Looks like the only parties paying full rent are the fringe groups. Some, such as the "anti-ENA" candidates attacking the elite civil service training college in Paris, can hardly expect any offers of free accommodation from that quarter.

Censor pride

■ When is restricting information not censorship? When the prime minister says it isn't.

Malaysian premier Mahathir Mohamad has been trawling world centres of IT development to drum up business for a purpose-built high-technology city near Kuala Lumpur. But information-based companies are wary – they fear that a government which controls most of the news media and a PM who says television programmes should be assessed on their likelihood to promote good behaviour might want to censor their Internet output.

Mahathir doesn't see the problem, believing that journalists will censor themselves. If anyone tries to print scurrilous material from the net, then the plan is simply to keep the results out of the hands of ordinary Malaysians.

Perhaps tired with the endless redefining of censorship, Dr Mahathir, who is rumoured to be in failing health, was ready with a response when asked on a visit to London if he planned to hand over power soon. "At some stage or another I have to stop being prime minister due to natural factors or voluntarily. There is no way a person can stay on as prime minister after he is dead."

Congo line

■ Symbolism comes to the fore in times of revolution, and Zaire – sorry, the Democratic Republic of Congo – is no exception. Since the Alliance of Democratic Forces took power a week ago, Kinshasa residents have been erasing all vestiges of ex-president Mobutu Sese Seko. His picture has gone from countless walls and a bust of the president's mother has disappeared from what is now Congo General Hospital.

The pre-Mobutu gold-starred blue flag flies in embassy compounds while newspapers have published the words of *Debut Congolais*, the national anthem jettisoned by Mobutu.

The broadcast media has quickly dumped pro-Mobutu sycophancy, although some journalists still get confused. Each morning at least one radio presenter announces: "Good morning, this is the Voice of Zaire. . . I mean, the Voice of Congo."

Financial Times

100 years ago

Fruit In California

Young gentlemen with plenty of money and a roving turn of mind who may be tempted by advertisements to go and grow fruit in California would do well before purchasing their outfit to study a recent Consular report, and it is odds on that they will change their minds. The report shows among other things that the value of land in California has fallen in the past few years, and that any but the best lands are now almost unsaleable. For this very reason American agents are eager to sell land to novices.

50 years ago

Strike Threat In France

In a speech before the Chamber, M. Ramadier, after having again stressed the economic dangers involved in the mass demonstration against controls, stated flatly that the Government will not give way to any strike threat, and he mentioned in this connection that new proposals were elaborated last night in view of the settlement of the wages dispute. This settlement is sharply criticised by the Communist-controlled General Confederation of Labour, the C.G.T.

FINANCIAL TIMES
Tuesday May 27 1997

Deputy PM reassures foreign investors

Russia 'will protect Gazprom shareholders'

By John Thornhill and Chrystia Freeland in Moscow

Mr Boris Nemtsov, Russia's first deputy prime minister, has promised that the interests of foreign investors in Gazprom, the giant gas monopoly, will be protected in any government action to simplify the company's dual shareholding structure.

"No matter what happens, shareholders including those who bought shares on the London and New York exchanges will not suffer," Mr Nemtsov told the Financial Times.

His comments follow a turbulent trading period for Gazprom's international shares, which are held in the form of American Depositary Receipts. These fell heavily this year after foreign arbitrageurs skirted government restrictions limiting their ownership of Gazprom shares to 9 per cent by buying the cheaper domestic shares through Russian-registered "grey" funds.

The international share price has since bounced back as Gazprom has vowed to crack down on these foreign "swindlers". But the uncertainty has frustrated Gazprom's attempts to raise additional equity finance abroad.

Mr Nemtsov said the confusion over the dual shareholding structure had harmed both share markets. The government is considering various plans to clarify the situation.

But Mr Nemtsov said strict limits would always be placed on foreign ownership of Russia's biggest company. "To lose control over Gazprom means to lose sovereignty over Russia."

In its attempts to exert stricter control over Gazprom's activities, the government yesterday concluded a new trust agreement with the company settling how the state's 40 per cent shareholding would be managed.

Mr Rem Vyakhirev, Gazprom's chairman, will retain responsibility for the state's shareholding. He will be accountable to a 10-person government board, headed by Mr Nemtsov.

Every three months, Mr Vyakhirev will have to report to this board and must produce a full audit every year. His salary will be linked to the company's dividend payments.

ABN-Amro, the Dutch bank, and Goldman Sachs, the US investment bank, confirmed they had been awarded a mandate to raise \$2bn-\$3bn of debt finance for Gazprom. Within one month, Gazprom will receive up to \$1bn from a bridging loan, which will be syndicated.

The two banks also aim to raise more than \$1bn from a eurobond issue within the next six months with an additional \$500m to \$1bn being raised via convertible bonds. Mr Vyakhirev has promised that Gazprom will pay Rbs7,000bn (\$1.2bn) of overdue taxes to the government by June 10.

New man in bandit country, Page 19; Polish deal, Page 24

German parties closer to deal on tax system reform

By Ralph Atkins in Bonn

German government and opposition parties yesterday moved closer to a deal to reform the country's complex tax system, after the breakdown of formal negotiations last month.

Bonn government leaders welcomed elements of a Social Democratic party (SPD) plan to cut basic income tax but make companies pick up much of the bill by adopting tighter, US-style treatment of financial reserves.

Mr Wolfgang Schäuble, parliamentary leader of Chancellor Helmut Kohl's Christian Democratic and Christian Social Union alliance, warmly welcomed SPD support for cutting some corporate rates while broadening Germany's tax base.

Mr Schäuble also welcomed signs that the SPD might accept a cut in the top rate of income tax from 53 per cent. Both sides agree on cutting the lowest income tax rate from 25.9 per cent to 15 per cent.

The rapprochement between the SPD and the government follows the collapse of negotiations in April, which cast doubt on Germany's willingness to accept structural reform.

SPD support is important because the party dominates the Bundesrat, the second chamber of Parliament which has to approve the plans.

The länder, or federal states, have put pressure on Mr Oskar Lafontaine, the SPD leader, to strike a deal with the government, because they are anxious to see reform of tax anomalies which hit their budgets. The SPD is also afraid it might alienate voters with its blockade tactics.

However, yesterday's SPD plan envisaged a much smaller net tax reduction than the DM30bn (\$17.4bn) a year proposed by the Bonn coalition. The SPD suggested the government might have to delay plans to cut from 7.5 per cent to 5.5 per cent the solidarity surcharge (levied on income tax payers to pay for eastern German redevelopment), in which case the impact of the SPD plans would be neutral.

Moreover, business would bear the cost of an initial cut in basic income tax to 22 per cent from January 1998, as well as for higher personal and child allowances. Although the tax on reinvested profits would fall from 45 per cent to 35 per cent, the SPD suggests using similar standards to the US for determining corporate profits and treating hidden reserves. The SPD calculates this could raise more than DM19bn.

Meanwhile, Chancellor Kohl berated the Free Democratic party, the junior member of his coalition, for ruling out at the weekend increases in indirect taxes to plug gaps in the budget.

Roche deal

Continued from Page 1

bridging loan or use internal funds. On the basis of the published information, the acquisition should result in a goodwill charge of \$8bn.

Roche shares jumped on the news of the takeover but fell back to close SFr185 lower at SFr13,005.

Italian referendum call

Continued from Page 1

proper name – it was a propaganda display. But our reply must be political, carrying out reforms that strengthen the unity of Italy and modernise the state."

Last week, bipartisan proposals were unveiled in parliament to introduce a federal system of government that would radically alter the post-war system of power and administration, devolving all but a small proportion of activities to the regions and municipalities.

The push behind the move to federalism has been a desire to head off the secessionist demands from the League.

Cigarette brand row sparks lawsuit in Australia

By Nikki Tait in Sydney

The Australian divisions of two of the world's biggest tobacco companies are locked in a legal wrangle over alleged "misleading and deceptive conduct" in the market which is worth A\$6bn (\$4.6bn) a year.

W.D. & H.O. Wills, which is owned by Britain's BAT group, is suing Philip Morris, claiming that its US competitor's new cigarette brand, to be called "Summit", has been packaged deliberately to look like its "Horizon" brand.

Wills' launched Horizon in 1991, and has rapidly built up market share. It now accounts for about 14 per cent of the Australian tobacco market. Philip Morris had scheduled the launch of Summit for next month.

In its federal court filing, Wills is asking for Philip Morris to be restrained from manufacturing the new brand and for it to give up existing stocks so that they can be destroyed. It is also seeking unspecified damages.

The lawsuit is the latest in a series of battles between US-based Philip Morris, Wills and Rothmans for share in the contracting Australian cigarette sector. There was a significant price war two years ago.

Wills said yesterday that "areas of commonality" between Horizon and Summit included blue colouring, the style of lettering and the use of a white bird motif. Horizon uses a cloud motif, and Wills also had a bird symbol as its corporate logo.

Wills said yesterday that its lawyers had previously written to Philip Morris asking for a voluntary withdrawal, but they had failed to achieve this.

Yesterday, Philip Morris said only that it had received news of the legal action late on Friday and had briefed its lawyers. The first hearing in the case will take place tomorrow afternoon.

The Australian tobacco market has been highly competitive recently and the 1995 price war is estimated to have cost the big companies several hundred million dollars.

Philip Morris was generally regarded as the "winner" of that battle in market share terms, but at considerable cost to its bottom-line profits.

The US-owned company is the largest operating in the Australian market, but is followed fairly closely by Rothmans and Willis.

Wills said that legal action against alleged "copy-cat" brands had occured in the past, but that such cases usually involved smaller competitors.

THE LEX COLUMN

Left hook for Chirac

Even if France's centre-right coalition fares better in next Sunday's second round of voting, President Jacques Chirac's gamble on calling a snap parliamentary election will have backfired. Instead of a vote of confidence in a programme of fiscal tightening and structural reform, he got a clear statement that French voters have no stomach for more suffering.

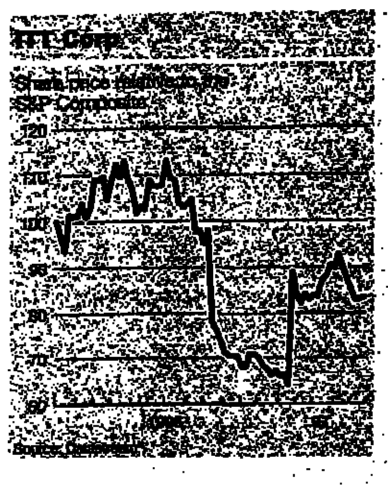
Moreover, the swing to the socialists in the first round of elections is clearly not good news for European economic and monetary union. The socialist leader, Mr Lionel Jospin, is committed to Emu, but on terms that look unpalatable for neighbouring Germany. He has insisted on no more fiscal tightening, looser interpretations of the Maastricht criteria and initial entry for Spain and Italy. And while prime minister Alain Juppé's centre-right government could still end up with a pitiful majority – indeed that remains the most likely outcome – it will lack the support to implement its programme for liberalising the economy in preparation for Emu.

Whatever the results of next Sunday's poll, it is hard to see why the CAC-40 index is still more than 100 points higher than when elections were called. Mr Jospin's commitment to policies which would raise labour costs and halt privatisations is at odds with investors' dreams of economic liberalisation. And even if Mr Juppé's successor gets power, he will hardly have a mandate for tough reforms. The retail banks and car manufacturers look most exposed to the backlash.

Roche

Roche has finally pounced. And far from the predicted hostile bid for a quoted drugs company, it surprised with the agreed \$11bn takeover of Boehringer Mannheim, a private German company specialising in diagnostics – the clinical laboratories, machines and reagents used to test for diseases, rather than treat them.

While this will not do much for the share prices of Zeneca and other oft-mooted targets of Roche, it makes the Swiss group the global number one in diagnostics – in line with its public target of being world leader in all its businesses. The enlarged group will have extra marketing muscle to push Roche's new PCR tests, which can detect cancer and genetic diseases, and there should be cost savings from merging the two operations. Boehringer



Mannheim also has a few, mainly older, drugs and owns 84 per cent of DePuy, a US-based manufacturer of artificial joints. This is a new area for Roche, but one offering juicy margins of nearly 30 per cent.

First and foremost, however, Roche is doubling up in diagnostics, a fiercely competitive market characterised by falling prices. Boehringer Mannheim's diagnostics margins are just over 10 per cent, half those of a typical drug company. Yet Roche is paying 24 times this year's expected earnings – the kind of multiple Glaxo paid for Wellcome. And with its SFr5bn cash pile spent, Roche's ambition of becoming a leader where it really matters – in pharmaceuticals – looks further away than ever.

ITT Corp

In the three months since ITT Corp's management gained the added performance incentive of a hostile bid, it has done little the bidder, Hilton Hotels (HHC), could argue with. Gone are head office staff, shares in Alcatel Alsthom and investments in Madison Square Gardens and television, bringing in \$1.5bn. However, management has now started selling hotels, and ITT investors may be getting nervous.

HHC's promise to increase its \$6.5bn bid is on ice until November, when ITT management's future is put to the vote at an annual general meeting. So management has six months to tilt the playing field its way. Creating more value than HHC offers will be difficult. It could give disposal proceeds back to shareholders to buy some friends. But HHC conservatively estimates it would realise \$100m a year of cost savings from absorbing ITT. That has a net present value of about \$1bn, which ITT's management would struggle to match. It could merge its gaming business with a competitor to achieve some of those synergies and then try to secure another hotel deal – or a more valuable offer from HHC. But creating more than \$1bn of demonstrable value in just six months looks a daunting challenge.

At least last week's \$200m hotel sale does not whiff of a scorched earth defence. But it underlines the possibility that management could take strategic risks to get itself out of a corner. All things being equal, November will bring ITT an offer pitched at 10 to 20 per cent above the current price – but ITT could always pre-empt that with a roll of the dice.

Signet

For £1.99 you can get half a dozen Signet shares or a pair of the jewellery group's earrings – and over the past decade the earrings have been the better deal. That may be changing. The capital reorganisation announced last week will free Signet from the burden of multiple classes of preference shares and £165m of accompanying dividend arrears. The new, unified share structure should aid liquidity and allow investors to focus on the operations.

Trading performance has been pretty sparkling. In the year to February, operating profits increased 20 per cent on a 6.4 per cent rise in like-for-like sales. The best performance came from a modernised Ernest Jones chain in the UK, where same store revenues rose 12 per cent. The weakest part was H. Samuel in the UK, which is being treated to an overhaul this year. Add in lower interest costs following a recent bank refinancing, and underlying pre-tax profits should rise from £45m to £60m this year, giving earnings per share of 2¼p under the new structure.

Putting those earnings on a multiple of 16, a small discount to rivals Argos and Goldsmiths, suggests a share price of 40p against the current 31¾p. Zale Corporation, its main US competitor, is trading on 10 times enterprise value to forecast earnings before interest, tax and depreciation. Using a rating of 8-10 times for Signet and subtracting its £240m of debt gives a share price of 40p-50p. On top of that, a cleaned-up Signet would surely become a takeover target for the likes of Argos. Either way, the shares should come back into fashion.

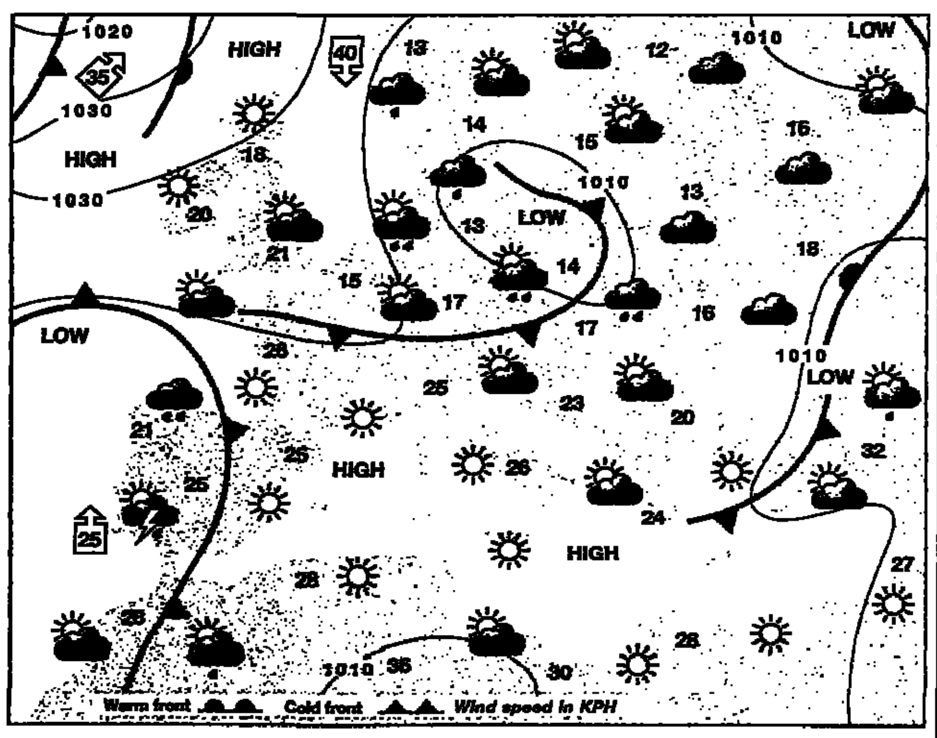
FT WEATHER GUIDE

Europe today

The British Isles and most of France will be sunny.
The Benelux will be partly cloudy with the possibility of showers.
Germany may also have showers, while rain is expected in the east.
Low pressure in this area will bring rain to Poland.
The Alp countries will have sun mixed with cloud. Eastern Austria will be showery.
Western Spain and Portugal will have rain and some thunder showers.
The Balkans will be mainly dry with a mixture of sun and cloud. Turkey will be showery, mostly in the north.

Five-day forecast

High pressure will remain over the British Isles, bringing settled conditions. The Benelux and northern France will be unsettled. Low pressure west of Portugal will continue to bring unsettled conditions to the Iberian peninsula. Another low pressure system will bring cloud and rain to eastern Europe.



TODAY'S TEMPERATURES

Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

	Maximum	Beijing	shower 22	Caracas	fair 31	Faro	shower 21	Madrid	sun 25	Rangoon	shower 34
	Celsius	Belfast	fair 19	Cardiff	sun 20	Frankfurt	fair 18	Majorca	sun 30	Reykjavik	rain 11
Abu Dhabi	fair 39	Belgrade	fair 21	Casablanca	fair 24	Geneva	sun 24	Malta	sun 26	Rio	fair 24
Accra	fair 30	Berlin	rain 13	Chicago	fair 16	Gibraltar	fair 25	Manchester	sun 18	Rome	sun 27
Algiers	fair 32	Bermuda	fair 26	Cologne	shower 15	Glasgow	sun 19	Manila	shower 33	S. Frsco	fair 22
Amsterdam	shower 15	Bogota	thund 20	Dakar	fair 27	Hamburg	shower 13	Melbourne	fair 17	Seoul	fair 25
Athens	fair 26	Bombay	fair 33	Dallas	sun 32	Helsinki	fair 15	Mexico City	shower 26	Singapore	fair 33
Atlanta	shower 27	Brussels	fair 16	Delhi	sun 40	Hong Kong	fair 31	Miami	fair 32	Stockholm	fair 15
B. Aires	fair 15	Budapest	shower 17	Dubai	sun 39	Honolulu	sun 29	Milan	fair 24	Strasbourg	fair 22
B.ham	sun 19	C.hagen	drzzl 12	Dublin	sun 20	Istanbul	shower 17	Montreal	sun 16	Sydney	fair 20
Bangkok	shower 35	Cairo	sun 33	Dubrovnik	fair 23	Jakarta	fair 32	Moscow	cloudy 12	Tangier	fair 24
Barcelona	sun 25	Cape Town	shower 16	Edinburgh	sun 18	Jersey	sun 17	Munich	shower 20	Tel Aviv	sun 27
						Karachi	fair 35	Nairobi	fair 25	Tokyo	fair 22
						Kuwait	sun 41	Naples	sun 26	Toronto	fair 16
						L. Angeles	fair 27	Nassau	fair 31	Vancouver	fair 19
						Las Palmas	fair 25	New York	fair 18	Venice	fair 23
						Lima	fair 25	Nice	sun 25	Vienna	shower 17
						Lisbon	thund 24	Nicosia	sun 28	Warsaw	rain 12
						London	fair 21	Oslo	drzzl 14	Washington	sun 21
						Lux.bourg	fair 17	Paris	sun 22	Wellington	shower 13
						Lyon	sun 26	Perth	shower 19	Winnipeg	fair 18
						Madeira	fair 22	Prague	shower 14	Zurich	sun 19

FINANCIAL TIMES
COMPANIES & MARKETS
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IN BRIEF

BHP shares fall out of favour

BHP, Australia's largest company, saw demand for its shares evaporate yesterday when it warned of flat earnings and abnormal charges. BHP shares dropped 40 cents to A$18.92. The fall followed a rise of more than 11 per cent in May after the resources group announced a steel restructuring. Page 24

Japanese trust banks return to profit
Japan's trust banking sector returned to profit in the 1996 fiscal year, after write-offs for property-related bad loans were responsible for a large loss in 1995. The seven trust banks reported a combined recurring pre-tax profit of Y124.38bn ($1.1bn). Page 25

Telefónica and Unisource 'divorce'
Telefónica and Unisource are likely to agree a "divorce settlement" within two weeks, scarcely a month after the Spanish operator withdrew to join the Concert alliance of British Telecommunications and MCI. The settlement includes the return by Telefónica of the 25 per cent stake it acquired in Unisource. Page 26

Italian bank completes flotation
San Paolo di Torino, Italy's largest commercial banking group, has been successfully floated, with a secondary share offer more than three times subscribed. The issue represents about 30 per cent of the bank's share capital. Page 23

OTE offer weighted towards institutions
The second stage of the privatisation of OTE, Greece's telecoms group, will follow the pattern of last year's initial offering, with the sale weighted towards institutions. The Socialist government plans to sell 45m shares or 10.7 per cent of OTE's equity. Page 23

GRE plans joint ventures in India
Guardian Royal Exchange, the UK insurance group, is expected to announce plans for two joint ventures in India, one of east Asia's biggest untapped insurance markets. Page 22

Plan for Vietnam's first stock exchange
Vietnam's State Securities Commission plans to submit a proposal to the government soon outlining how the communist-run country's first stock exchange could be set up. Page 25

Companies in this issue

Market Statistics http://www.FT.com

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Allianz	373	+	13.5
BMW	1461	+	35
MAN	516	+	6.1
Falls			
Holzmann	498	-	16.5
PWA	307	-	9
Wella	1050	-	19
TORONTO (C$)			
Rises			
Algoma Steel	8.1	+	0.7
Lindsey Morden	15.0	+	1.0
Philip Envir	28.9	+	1.3
Falls			
Gandalf Tech	2.31	-	0.29
Rex Diamond	3.0	-	0.55
Teknor Indust	7.0	-	0.8
PARIS (FFr)			
Rises			
SGS Thomson	468	+	8.2
Falls			
Accor	863	-	33
Air Liquide	879	-	28
BNP	247	-	16
Danone	883	-	31
l'Oreal	2038	-	124
TOKYO (Yen)			
Rises			
Daiei Inc	805	+	18
Marudai Food	462	+	18
Yasuda T&B	361	+	21
Yuasa Corp	418	+	18
Falls			
Dai Nip Toryo	397	-	13
Nihon Cement	591	-	14
HONG KONG (HK$)			
Rises			
Cheung Kong	80.0	+	3.0
Hang Seng Bk	93.0	+	2.75
Henderson Lnd	77.5	+	2.25
SHK Ppt	98.25	+	1.5
Falls			
China Mtr Bus	80.5	-	2.0
Swire Pac A	64.25	-	0.75

New York and London closed. Prices unavailable for Bangkok. Toronto prices at 12.30pm.

Nippon Credit Bank in $3bn loss

By Gillian Tett in Tokyo

Nippon Credit Bank, Japan's ailing long-term credit bank, yesterday bucked the trend for a return to profitability among Japanese banks by reporting a record loss in the year to the end of March.

Recurring losses, before extraordinary items and tax, were Y350.16bn ($3bn), compared to a Y131.16bn loss in the previous year. The loss stemmed from write-offs for property-related bad debts following the collapse of the 1980s property bubble.

The group, which has admitted to problem loans of about Y1,260bn, made Y484.32bn write-offs to cover its property-related bad debts, it said. It cut its dividend for the year from Y5.5 to Y5 as a result.

In spite of the heavy losses NCB insisted it would have a viable future after it implemented a restructuring plan announced in April.

In particular, it pointed out that its operating profits for the fiscal year rose from Y165.8bn to Y170.2bn, thanks to the fall in the yen interest rates and redemption of high coupon debentures.

However, a government-backed, Y291bn recapitalisation programme has not yet been finalised.

The restructuring envisages a Y291bn recapitalisation, of which Y70bn would come from private banks, Y97bn from life assurance companies and the rest from a fund established by the Bank of Japan.

Although the banking industry has agreed its share of the rescue package, the life assurance industry is so far refusing its support because of uncertainty over an unrelated rescue plan for Nissan Mutual – which recently became the first life assurance company to fail in Japan since the second world war. With losses at Nissan Mutual not yet quantified, the industry – particularly Nippon Life, Japan's largest life assurance company – is concerned about agreeing to another potentially expensive rescue.

The largest banking contributors are expected to be the other two long-term credit banks – the Industrial Bank of Japan and Long Term Credit Bank of Japan.

Both reported a relatively healthy set of results, returning to profit after notching up losses last year due to bad debt provisions.

IBJ, the largest bank in the sector, reported a recurring profit of Y43.62bn, up from a loss of Y166.99bn the previous year. The bank said it had disposed of Y261.2bn worth of non-performing loans during the year and, although Y1,084bn worth of loans remained, the ratio of reserves for possible loan losses to non-performing loans was two to one.

Gevaert shares up 12% on news of asset split

By Neil Buckley in Brussels

Shares in Gevaert, Belgium's fourth-largest holding company, jumped 12 per cent yesterday to a record BFr3,340 after Friday's announcement that its assets were to be split between two other holding companies – a move analysts believe could trigger further Belgian consolidation.

The complex share swap and assets reshuffle involves redistributing Gevaert's BFr77bn ($2.2bn) assets between two main shareholders, Almanij, Belgium's third-largest holding company, and Cobepa, the fifth-largest.

Shares in Almanij and Cobepa both advanced strongly on the news, with Almanij up 7 per cent at BFr16,500, and Cobepa up 6 per cent to BFr1,520.

Speculation about further consolidation in the financial sector drove the Bel-20 index of Belgium's 20 leading shares up 12 points to a record 2,279. Most analysts agree the sector has too many small players and lacks groups large enough to compete in a single-currency Europe.

"There is a real sense of anticipation in the financial sector, everyone is expecting something to happen," said one Antwerp-based analyst.

Almanij, the Antwerp-based financial group which controls Kredietbank, Belgium's fourth-biggest bank, is expected to take over Gevaert's German and Flemish interests.

Those include stakes in Hapag Lloyd, the German shipping group, Kredietbank Luxembourg, sister bank to the Belgian operation, and Telenet, the Flemish telecoms group.

Cobepa, 60 per cent owned by Paribas, the French financial group, is expected to take over Gevaert's stake in Pargesa, the Swiss holding company, and its shares in Paribas Banque Belgium.

In a separate deal also announced on Friday, Paribas said it would sell 47 per cent of its Belgian banking arm, the country's eighth-largest bank, to Bacob Bank, the seventh-largest, lifting Bacob's stake to more than 50 per cent.

The deal will leave Paribas with a banking branch which will retain the Paribas name but will deal with investment banking activity. It will co-operate with Bacob over the distribution of financial services products.

Paribas said the action was part of its strategy to focus on two core businesses, international investment banking and specialist financial services, in preparation for the single European currency.

Rationalisation of Gevaert will increase Almanij's capital by up to a third, giving it the means to support expansion by Kredietbank – something to which it reiterated its commitment at this year's annual shareholders' meeting.

Kredietbank admitted last week it had held "exploratory talks" about an alliance with Rabobank of the Netherlands. But banking analysts see Crédit Commercial de France, in which Kredietbank already holds a small stake, as a more likely suitor.

The merger of two of Belgium's top 10 banks has also rekindled speculation about a "mega-merger" between Générale de Banque, Belgium's biggest, and Banque Bruxelles Lambert, the third-biggest.

Opposition from ING, the Dutch bank which owns 20 per cent of BBL, has previously prevented such a deal, but shares in both groups have gained since ING hinted its opposition to a tie-up might be softening.

Acquisition will make Swiss company joint leader in diagnostics

Roche confounds the analysts

By William Hall and Clive Cookson in London

Roche's $11bn acquisition of Boehringer Mannheim, a family controlled business with a somewhat chequered history, was not the bid that the market had been expecting from the Swiss company.

For two years Roche's shares have been buffeted by rumours that it was poised to make the biggest bid in the pharmaceuticals industry. In the event it wrong-footed the analysts and made the biggest bid in the fiercely competitive diagnostics industry.

The stock market had warmed to the cost-cutting potential of last year's merger between the other two Swiss pharmaceutical giants, Ciba and Sandoz, and had hoped that Roche might try to imitate their creation of Novartis.

However, Roche has again demonstrated its independent streak. It has made an acquisition that will transform its marginally profitable diagnostics business, the smallest of its four divisions, into one of the world's two leading diagnostics companies and Roche's second biggest operation.

Roche, unlike some of its competitors, has a tradition of making acquisitions based on a long-term time horizon. It already has one of the world's strongest pipelines of new drugs. Nevertheless, Roche has been under increasing pressure to invest some of its SFr15bn ($10.20bn) of liquid assets which last year contributed SFr1.3bn of the group's SFr4.7bn pre-tax profits.

Roche has been accused of being better at making money on its cash pile than on its core pharmaceuticals business and Mr Henri Meier, chief financial officer, stressed yesterday that Roche did not want to act like a bank.

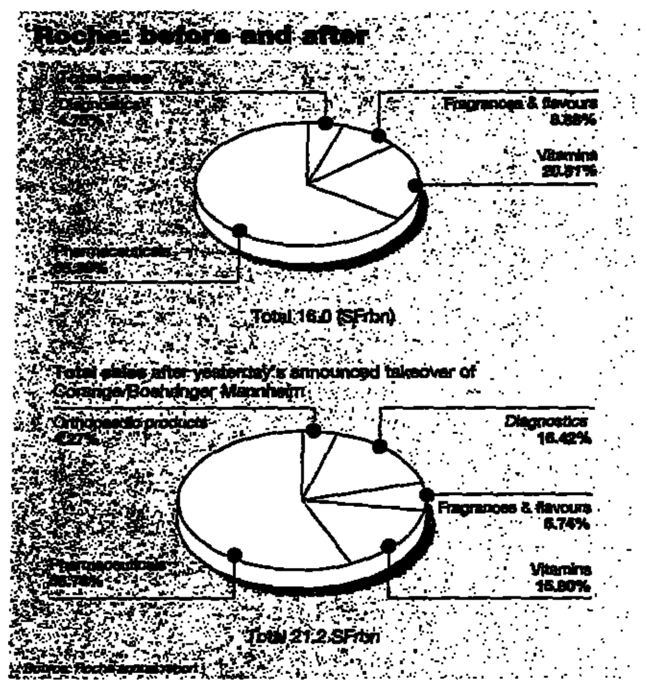
Although Roche is acquiring an extra SFr1.5bn a year in pharmaceuticals sales and control of DePuy, a US quoted company which is one of the world's leading manufacturers of artificial joints, the main attraction is Boehringer Mannheim's diagnostics business. Roche sees big synergies between the use of its drugs and the demand for diagnostics in disease management and patient control.

But why has Boehringer Mannheim thrown in its lot with Roche? Mr Gerald Möller, 53, chief executive of the 138-year-old group, said yesterday: "On our own we were unable to maintain our position in diagnostics and at the same time globalise and broaden our pharmaceutical business."

Previous attempts to expand in pharmaceuticals, at the expense of diagnostics, had caused serious management upheavals and boardroom conflict at Corange, Boehringer Mannheim's Bermuda-based parent. In addition, Mr Curt Engelhorn, who has chaired the company for the last 40 years, is 71 and there was no obvious member of the controlling family ready to step into his shoes.

A friendly deal with Roche made most sense. Mr Engelhorn broached the subject with Mr Fritz Gerber, Roche's 67-year-old chairman, and the deal was done without the need for investment bankers.

The acquisition will create a combined Roche Boehringer Mannheim Diagnostic business with sales of about $2.5bn a year – enough to give it joint leadership of the worldwide diagnostics market with Abbott of the US.




Fritz Gerber, Roche chief executive, backed acquisition

Each group will have 12-15 per cent of global sales of diagnostic products – the instruments and chemicals that test for diseases in specialist laboratories, doctors' surgeries and patients' homes.

The world's third largest diagnostics company, with sales of $1.5bn a year, will be Dade Behring, the recently announced merger of Hoechst's Behring Diagnostics with Dade International of the US.

Other companies with diagnostics sales worth more than $1bn a year include Johnson & Johnson, Becton Dickinson and Bayer.

Although the diagnostics industry is characterised by fierce price competition and relatively slow growth, the new Roche Boehringer Mannheim Diagnostic business will be in a relatively strong position because both partners have invested heavily in biotechnology products with good growth potential.

Boehringer Mannheim and Roche do not disclose the profits of their diagnostics operations.

However, Roche believes that it will be able to boost the profitability of the combined business by cutting costs and better marketing of PCR, its DNA-amplifying technology that plays an essential role in genetic testing.

The global diagnostics industry is less than one-tenth the size of therapeutics, the mainstream pharmaceutical activity of making drugs to treat people.

But diagnostics is less fragmented than pharmaceuticals. The joint leaders of therapeutic market – Novartis of Switzerland and Glaxo Wellcome of the UK – each have a 4.4 per cent share.

Because Boehringer Mannheim also produces drugs, especially for heart disease and cancer, the acquisition will lift Roche up the pharmaceuticals league table.

The Boehringer Mannheim acquisition marks the end – at least for a while – of the regular rumours that Roche wanted to buy a drug company such as Zeneca of the UK or Astra of Sweden, to put it back on a par with Novartis, its Swiss arch-rival.

As Mr Daniel Vasella, Novartis chief executive, noted yesterday, his company is not active either in diagnostics or in implants, the main activities that Roche is acquiring.

The Corange deal makes clear, for the first time, that the two Swiss pharmaceuticals giants are now set on distinctively different courses.

Lex, Page 20

Biotech company to buy Irish healthcare group

Ethical Holdings will double its revenues with £14m Clonmel deal

By Roger Taylor in London

Ethical Holdings, the Cambridge-based biotechnology company, is to announce today that it is buying Clonmel Healthcare, the Irish pharmaceuticals group, for about £14m ($22.68m) in a deal which will double its revenues and employees.

Ethical, quoted on Nasdaq in the US, is also preparing to list in London with a £20m institutional placing. The Clonmel deal is conditional on this going ahead.

Mr Geoffrey Guy, Ethical's chief executive, said he was confident of a successful placing in spite of a shock to the biotechnology sector last week when Celltech, one of the leading companies in the industry, saw its share price halved after its lead product failed clinical trials.

"We are not like Celltech. We are at the low-risk end of drug development and have proved our ability to make profits," he said.

Ethical is paying about half the £14m price in shares, and the rest in non-interest bearing debentures payable in April 1998 and January 1999.

Clonmel, which is based in County Tipperary, is the 10th largest pharmaceuticals group in Ireland.

Last year, the group had revenues of I£12.2m ($18.42m) and net assets of I£5.5m.

Mr Dan Tierney, chairman and owner of Clonmel, is selling after a difficult period for the company. It sank into losses last year, compared with a profit of more than I£1m the year before, because of a fall in US orders and a write-off of research and development costs.

Mr Guy said Clonmel's trading in the first months of this year was on course to return the company to its former profitability.

Mr Tierney, whose Cross Group also owns a large veterinary business, will become a non-executive director of Ethical.

Mr Guy said Clonmel would help Ethical fulfil its plans to expand its manufacturing and marketing capability.

Clonmel has two pharmaceutical manufacturing plants and has been making some of Ethical's products on a contract basis since 1988.

Mr Guy said the plants could be readily adapted to make and package other Ethical products such as its new skin patch for hormone replacement therapy.

Ethical specialises in the development of slow-release pills and skin patches as improved ways to deliver drugs. Its biggest product is a slow-release formulation of the heart drug diltiazem.

Ethical has subsidiaries in Sweden and Argentina.

Last year the group, which has been profitable, suffered a loss of £3.54m on revenues of £13.76m because of increased research and development costs.

Hanson spin-off's better-than-expected results contrast difficulties experienced by larger rivals

Powerhouse £4.7m for nine months

By Peggy Hollinger

Powerhouse, the UK's largest independent electrical retailer, will today announce better-than-expected results in direct contrast to the difficulties experienced recently by its larger rivals in the sector.

Powerhouse, a management buy-out spun off by Hanson last year, has turned in pre-tax profits of £4.7m against expectations of £4.4m for the nine months ended March 29.

The profits mark a sharp turnround from the last nine months in Hanson's ownership when there was a loss of £16m. Sales for the most recent nine months were £116.3m, against expectations of £115m.

The return to profit has been achieved after a radical shake-up of the business last year, resulting in some 2,000 job cuts and almost 200 high street store closures.

Mr Glyn Moser, chief executive, said the group had beaten all targets set when it left the Hanson stable, in spite of a tough retail market. "Trading is strong and net margins are rising. The company is in very robust shape."

Powerhouse reports net cash of £22.9m – 83 per cent ahead of target and almost £1m more than planned for 2001. Mr Moser expected the group to beat this year's profit target of £5.1m and sales of £140m. Because of the strong cash position Powerhouse plans to open six superstores this year to add to its 88 high street stores and 33 out of town sites.

About 100 jobs would be created, bringing the total to some 1,680.

Mr Moser was confident that Powerhouse would benefit from a strong focus on white goods – such as washing machines and dishwashers.

The electrical market has been extremely competitive since Powerhouse emerged from Hanson. Argos, the sector's third largest group, has issued two profit warnings and the leader, Dixons, has been notably more cautious as a result of a slowdown in small domestic appliance sales.

However, Gfk, the industry's market research group, said recently the demand for goods appeared to be benefiting from a revival of confidence in the housing sector. Mr Moser said Powerhouse was advancing in line with the market at growth rate of about 11 per cent.

Powerhouse was originally a joint venture between three regional electricity companies, Eastern, Southern and Midland. On an annualised basis it was losing about £25m when taken over by Hanson in 1995. The electricity companies, faced with an oversupplied market, were forced to take a write-down on the business of £140m.

Mr Moser said Powerhouse would eventually either come to market or be offered in a trade sale. The management holds 92.5 per cent of the company. Venture capitalist BZW Private Equity controls the balance.

Glyn Moser: return to profit was after radical shake-up of business

Survey finds mixed response to Aim membership

By Christopher Price

Two-thirds of fast-growing private companies would consider joining the Alternative Investment Market, according to a survey published this week.

However, nearly as many of the 242 companies interviewed believed they could be ineligible for membership of the junior market, which was set up two years ago with less onerous joining rules than the main stock exchange.

In fact, companies wishing to list on Aim do not have to have a trading record, or have a minimum number of shares in public hands – two of the main criteria on the main market.

Part of the reason for the negative perception of so many to Aim membership could be related to the fact that only 17 per cent of respondents had been encouraged to look at the market by their advisers in the last 12 months. This rose to 27 per cent among companies with turnover above £12m a year, while only 10 per cent of those with sales of less than £4m had received information.

The favoured reason for an Aim flotation was to raise funds for "the next level of growth", or "opening up better opportunities to make acquisitions".

Having access to additional or knowledgeable shareholders and institutions, or promoting a higher City profile were also considerations. The least favoured benefit was to provide an exit for venture capitalists or other investors.

The survey, targeting companies with sales growth in excess of 30 per cent in the past three years, was carried out for Kidsons Impey, the accountants.

Taxing question is posed for water utilities

Leyla Boulton previews this week's results, which should reveal a familiar storyline

Water companies kick-off their preliminary results season this week with an increasingly familiar combination of slow profits growth and big dividend increases.

The results are expected to be seized on by Mr Gordon Brown, the chancellor, to justify the windfall tax he is preparing to slap on the water industry, along with other privatised utilities.

Mr Robert Miller-Bakewell, water analyst at NatWest Securities, believes "adherence to existing expectations [for profits and dividends] could be deemed inflammatory when the new government is busy determining just how it is going to assess the windfall levy and how much it is going to cost".

Profits of most companies are being squeezed by a tightening regulatory noose operated by Ofwat, the industry's regulatory agency, which has set out to eliminate profits growth by 2000.

But companies are locked into what Mr Miller-Bakewell describes as "peer pressure" to keep dividends up, partly in order to compensate for investors' expectations of a growing squeeze on profits.

Anglian Water will set the tone for the season tomorrow by reporting a dividend increase of 15 per cent to 34.4p against adjusted pre-tax profits rising just 2.8 per cent to £245.4m.

A similar contrast of modest profit increases and big dividend rises will be mirrored by Yorkshire Water on Friday, when it announces an expected 20 per cent dividend increase to 18.6p and profits up just 1.6 per cent to £214.5m.

The industry has suffered from a "fat cat" image of bosses making large profits and paying big dividends to shareholders at the expense of consumers. Bills have risen 35 per cent in real terms since privatisation in 1989.

Two other companies, which report on Thursday, will be the exception to the rule by announcing both big increases in profits and dividends, adding even more grist to the Treasury mill.

South West Water is expected to report a 15 per cent increase in pre-tax profits to £125.1m. Its dividend is forecast to rise 20 per cent to 37.2p, as part of a bid to keep shareholders sweet after the Monopolies and Mergers Commission blocked two rival takeover bids for the company last year.

United Utilities, the water and electricity group, based in the north-west of England, is expected to pay a net dividend up 14 per cent to 37.2p. It is forecast to report a 16 per cent increase in net profit to £317m.

Analysts and companies say that the new requirements on leakage are unlikely to have a material impact on companies' profits, at least in the medium term.

Ofwat is to set companies' annual leakage reduction targets and Mr John Prescott, the deputy prime minister, has asked all companies to repair customers' leaks free of charge.

"These are not huge cost items", says Ms Angela Whelan, analyst at Credit Lyonnais Laing. She also points out that many of the companies were already doing many of the things the government is asking for.

"It makes sense for the government to take as much credit as possible for the improvements already under way," she says.

But the government is also limited in pressing for mandatory improvements because companies have a legal right to press for higher bills to cover the costs of legal obligations.

The windfall tax is another matter.

Although the government has vowed that the costs of the tax will not be passed on to consumers, companies and analysts said the share owning public would suffer through a loss of value in water shares held by pension funds. Anglian, for instance, is 29 per cent owned by pension funds.

Companies expect the tax to hit their profits by raising their cost of capital as they borrow more to pay the tax.

Mr Miller-Bakewell reckons that a £5bn windfall tax – affecting the water industry to the tune of £1bn-£1.5bn – could reduce company profits by an average of 5 per cent.

Anglian, which has been one of the industry's best performers, both in managing water supplies and leaks, has also led opposition to the levy.

The company argues that it has not experienced a windfall and can ill-afford the tax since it is already one of the most heavily-geared businesses in the industry with a debt to equity ratio of 60 per cent.

GRE on verge of two Indian joint ventures

By Christopher Adams, Insurance Correspondent

Guardian Royal Exchange, the composite insurance group, is today expected to announce plans for two joint ventures in India, one of east Asia's biggest untapped insurance markets.

The company has signed twin agreements with a financial services subsidiary of Murugappa Group, a large conglomerate based in India. Guardian will have a 50 per cent stake in both a risk management consultancy and a future insurance business.

India has been slow to liberalise its largely state-managed insurance market and foreign companies are not yet allowed to sell insurance.

Expectations that the government would introduce wide-ranging reforms this year have so far proved premature. But this has not stopped several large UK insurers from seeking Indian partners.

Guardian's own conviction that liberalisation may come sooner rather than later prompted it to sever informal links recently with Peerless.

Murugappa, based in Madras, has interests ranging from manufacturing to financial services. The group has annual income of £500m and assets under management of £100m.

Laporte agrees sale of US unit

By Roger Taylor

Laporte, the chemicals group, has provisionally agreed the sale of its US adhesives and sealants business for about £90m.

The deal, expected to be completed in the next four months, will yield an exceptional profit of about £13m, after a goodwill write-off of £55m.

Laporte has been following a strategy of disposing of non-core businesses and focusing on those divisions which have market leadership in growth sectors.

The company had previously said that it intended to sell the US division.

The news came as the company reported trading in line with expectations during the first four months at its annual meeting.

Mr George Duncan, chairman said: "We did not expect economic conditions this year would offer any significant improvement over last. So far this has proved to be the case, with the strength of sterling presenting more challenging conditions. Despite this, Laporte has performed in line with plans, and we continue to expect a satisfactory outcome in the first six months and the year as a whole."

Italian bank sell-off meets heavy demand

By Paul Betts in Milan

Istituto San Paolo di Torino, Italy's largest commercial banking group, has been successfully floated, with a secondary share offer more than three times subscribed.

Requests for about 760m shares were received by Friday, the closing date for the offer, which involves 220m shares and a further 33m from the "greenshoe", or over-allotment option, for institutional investors.

The issue represents about 30 per cent of the bank's share capital. The price for the retail offer was fixed at L10,435, a 2.5 discount to Friday's official price of L10,702 for San Paolo shares on the Italian bourse.

A total of 120m shares will go to the public, including 30m reserved for San Paolo employees, who will benefit from an additional 2.5 per cent discount.

Institutional investors will pay L10,630 per share for 133m shares, including the additional "greenshoe" allocation.

San Paolo said it had received applications from 400,000 retail subscribers for more than 460m shares and from 400 institutional investors for 300m shares. The banks said the heavy retail oversubscription meant it would have to draw lots, because it was impossible to grant a minimum amount of shares to every subscriber.

The offer, coupled with the earlier sale of about 22 per cent of the bank to a new group of stable shareholders, will raise more than L4,600bn. However, the charitable foundation that has controlled the bank is expected to raise only about L4,100bn, because some 60m of the shares were sold by three other state institutions.

Following the flotation, the foundation will see its stake in the bank drop from about 66 per cent to 20 per cent. However, it says it will exercise voting rights on only 5 per cent of its stake in an effort to turn San Paolo into a public company.

The sell-off is to be followed by the privatisation of Cariplo, Italy's largest savings bank, which agreed last week to start formal negotiations with Banco Ambrosiano Veneto to forge a strategic partnership with the private banking group.

Bezeq prepares for hard choices

Competition may lead Israeli telecoms group to cut prices at the expense of profits

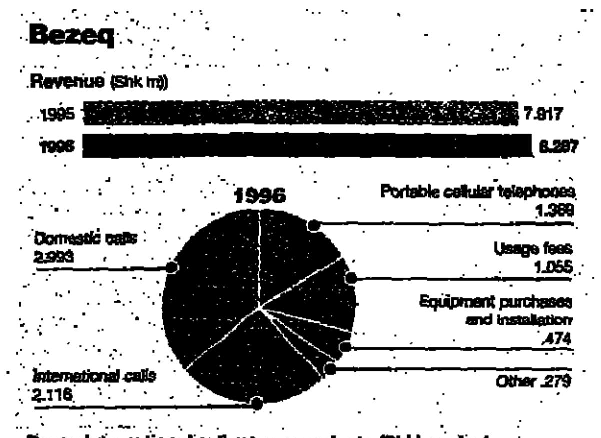
Bezeq, Israel's state-owned telecommunications company, faces its biggest challenge this week as international telephone lines are opened up to competition under the government's deregulation programme.

Consumers will cash in on what is expected to be a 70 per cent fall in the cost of overseas calls, but the move is set to put enormous pressure on Bezeq's profits as two international consortia plunder what has been a rich monopoly.

There is also more at stake for Bezeq than the dismantling of its exclusive right to handle international calls. Further deregulation is expected when the domestic market is opened up in 1999, and the ability of Bezeq and the two consortia to win over customers to their international telephone networks will be a crucial test of their readiness for this next stage.

The battle for overseas traffic pits Bezeq International against Barak – a consortium headed by the Global One alliance of Sprint, of the US, France Telecom and Deutsche Telekom – and Golden Lines, which includes Southwestern Bell and Stet, of Italy.

Barak and Golden Lines are likely to hit Bezeq hard, as international calls last year accounted for nearly 30 per cent of Bezeq's Shk8.2bn ($2.42bn) in revenues. A call to the US, for example, is set to cost less than Shk1 a minute instead of Shk3 now.



Bezeq international call rates per minute (Shk) against competitors' target rates

	Bezeq	Golden Lines	Barak
US	3.53	0.65	0.62
Germany	3.14	0.80	0.47
UK	3.14	0.60	0.47
Russia	3.53	1.15	1.05
Japan	4.34	1.43	0.43
France	3.14	0.80	1.04

Source: Israeli Ministry of Communications

"Bezeq is faced with hard choices," says Mr Giora Zarechansky, analyst at Ilanot-Batucha Investments. "To obtain a sizeable market share, it will have to drop its prices, but its profitability will fall, probably by as much as 20 to 25 per cent." Bezeq's net profits rose 5.2 per cent last year, from Shk625.9m to Shk656.7m.

Profitability is vital to Bezeq, since the state is preparing to sell off a further 25 per cent of its 76 per cent stake later this year. "The government should stick to this timetable, because the effect of deregulation will take time to bite. It will take time for the other competitors to get a return on their investments," Mr Zarechansky says.

Barak, which will invest more than US$200m in the next three years, does not expect to break even until the end of the decade. Golden Lines, which is investing between $100m and $150m, has set a longer timetable for a return on its investments.

Because of this time-lag, analysts say Bezeq should take the opportunity of deregulation to restructure further by cutting its 8,600 workforce, diversify and prepare for domestic deregulation, due in 1999.

Bezeq believes it should be able to secure a 50 per cent market share in international calls, with the other two consortia each taking about 25 per cent. Initially, Bezeq will have considerable advantages, since it will be able to exploit the infrastructure it has built up.

Both Barak and Golden Lines will have to pay Bezeq access fees to use the international network. The fees, set at Shk0.42 a minute for calls to the US and Canada, will fall to Shk0.10 by 2001. In addition, as Mr Eliav Ashkenazi, vice-president of marketing at Bezeq International explains, the government will compensate the company for a "soft landing" in the initial stages of deregulation.

However, where Bezeq will lose out is in revenues from incoming overseas calls. Israel has always been a net receiver of calls, by a ratio of two to one. As a result, Bezeq has received high payments from the US's AT&T, British Telecom and France Telecom in settlement rates.

"The revenues received from abroad will be distributed among Bezeq and the new competitors pro-rata to the number of out-going calls handled by each player," says Mr Keith Phillips, analyst at Société Générale Equities. "It will mean that the three participants will be keen to gain market share. The competition will be very aggressive."

Furthermore, increasing pressure from US telecoms groups to cut the price of settlements will also affect Bezeq's profitability. "AT&T wants to reduce settlement rates from the current $1.19 [per minute] to between 25 and 30 cents," says Ms Noga Barak, vice-president in charge of marketing of Barak.

Given these pressures, Bezeq is hoping that Israelis will spend more time making calls abroad. The number of minutes last year is estimated at more than 200m, and Mr Ashkenazi says that could double as more households take advantage of the lower prices and install second telephones.

Wooing these new customers is the aim of all three groups. Achieving it should leave them well placed to cope with domestic deregulation – another battle Bezeq must face as its monopoly withers away.

Judy Dempsey

Enel ahead despite cut in tariffs

By Paul Betts

Enel, the Italian state electricity utility, yesterday reported an 11 per cent increase in 1996 net profits, to L1,272.1bn ($763.6m), despite lower electricity tariffs.

The utility, which the government is committed to privatising, was forced to lower its tariffs last year as part of the government's anti-inflation drive.

The government has yet to set a timetable for Enel's sell-off. However, it is unlikely to take place before the middle of next year because of opposition from the Communist party, on whose support the centre-left government relies in the Chamber of Deputies.

Last July the government blocked the mechanism that automatically increased electricity tariffs in Italy. This cost Enel L370bn in revenues, although overall revenues rose 1.8 per cent in 1996, to L36,768.6bn. Gross operating profit increased 3.3 per cent, to L14,666.1bn.

Enel's profits before taxes and extraordinary items rose 14.7 per cent to L5,793.5bn. Indebtedness dropped from L35,100.8bn in 1995 to L34,338bn. Financial charges fell 24.4 per cent, to L2,517.1bn, while investments fell 1.5 per cent, to L7,346.9bn.

Bulgaria pulls down Hellenic Bottling

By Kerin Hope in Athens

Difficult trading conditions in Bulgaria for Hellenic Bottling Company, the Coca-Cola franchise-holder for Greece and much of the Balkans, pushed down consolidated annual pre-tax profits by 8.4 per cent to Dr23.2bn ($85.9m). Turnover was flat at Dr143bn.

The company said operations in Bulgaria, where it controls five joint ventures with local soft drinks bottlers and has a stake in a brewery, incurred losses of Dr2bn against profits of Dr1.9bn the previous year.

The slide into the red was blamed on the lev, the Bulgarian currency, which fell from Lev70 to Lev1,500 against the US dollar during the past year.

However, the group's Greek operations, which include fruit juice and mineral water, posted an 8.4 per cent increase in pre-tax profits to Dr23.3bn, mainly through productivity improvements.

Sales rose marginally last year, partly because of a 10 per cent decline in tourist arrivals during the summer season.

Shrinking incomes have reduced consumer spending in Bulgaria, HBC's biggest market in the Balkans. The company also has Coca-Cola franchises in Serbia, Macedonia, Moldova, Armenia and parts of Romania and Russia.

Most are joint ventures with local bottlers but HBC has also been involved in building greenfield plants in Romania and western Russia.

Economic and political upheavals in the southern Balkans have not upset HBC's plans to invest some $60m in the region over the next five years.

The group acquired a 70 per cent stake in Stind, a Sofia-based glass producer, four months ago for $4.05m in a deal arranged by Bulgaria's privatisation agency.

It will invest $27m over four years in modernising the plant, through a joint venture controlled by a subsidiary, Frigorex, which makes refrigerated display cases for soft drinks.

OTE offer weighted towards institutions

By Kerin Hope

The second stage of the privatisation of OTE, Greece's telecoms group, next month will follow the pattern of last year's initial offering, with the sale weighted towards international and domestic institutions.

The Socialist government plans to sell 45m shares, or 10.7 per cent of OTE's equity, in what will be the largest offering to date on the Athens stock exchange. Another 2 per cent will be made available if demand is high.

Immediately after completion of the secondary offering, OTE will make available another 31.6m shares through a 6-for-80 rights issue.

The capital increase will be based on the shareholding structure in place before the secondary offering, under which the state holds 92 per cent and private shareholders 8 per cent after last year's initial disposal.

The share price will be fixed through book-building in the week before the disposal on June 16. The rights issue will take place a week later, with existing shareholders being offered new shares at a 15 per cent discount.

Small shareholders, who include many of OTE's employees and pensioners, will receive an additional discount.

The sale will be co-ordinated by the state-controlled National Bank of Greece, Salomon Brothers and HSBC, which are expected to target institutional investors in the US and the UK.

Keen interest is expected among domestic Greek institutions, including the state-controlled pension funds, which are now committed to investing a larger percentage of their holdings on the bourse.

Analysts said the offer price would be close to OTE's current trading value of Dr6,700.

OTE raised operating profits last year by 15.5 per cent to Dr273.6bn ($1.01bn), on revenues up 14.6 per cent at Dr679.4bn. Net income rose 23.8 per cent to Dr171.8bn.

Profits warning deflates BHP shares

By Nikki Tait in Sydney

BHP, Australia's largest company, saw euphoria in its shares evaporate yesterday when it warned of flat earnings and abnormal charges for the immediate future.

Shares in the "Big Australian" tumbled 40 cents, to close at A$18.92.

The fall followed a rise of more than 11 per cent in May, after the resources group announced a steel restructuring.

Mr John Prescott, managing director, said the final quarter to May 31 would be hit by one-off items and "difficult" trading conditions. The outcome, he said, was likely to "seen to be below what some people are assuming it will be".

In addition, the recent review of BHP's entire asset base was expected to result in "a number of abnormal adjustments".

Mr Prescott would not give details about the scale of the adjustments, or precisely what might be included, but the company has announced an overhaul of its steel division; is completing a review of its oil division; and is trying to cut costs in its copper business.

Mr Prescott added that BHP expected the difficult trading conditions and "flat performance" to extend into 1997-98 "until the restructure takes greater effect and new projects are commissioned to contribute to earnings growth".

He pointed out that big projects such as the Cannington mine, the Canadian diamonds development, and the Hartley platinum mine would not be significant contributors until late in 1998 or 1999.

BHP has already announced profits after tax, but before abnormals, of A$1.06bn (US$812m) for the first three quarters of 1996-97, compared with A$1.03bn a year earlier. In 1995-96, its full-year result (before abnormals) was A$1.29bn, and some analysts had been predicting upwards of A$1.35bn for 1996-97.

But after yesterday's briefing, forecasts were downgraded to little more than last year's result – perhaps slightly less once asset sale proceeds were stripped out.

Yesterday's warning came in the wake of a two-day board meeting at BHP, the first to be chaired by Mr Jerry Ellis, the former minerals division boss who has taken over from Mr Brian Loton as chairman.

However, some analysts remained confused by the lack of detail on the abnormal charges, and suggested that this uncertainty could overshadow the stock until the full-year results were released in late June.

Mr Prescott, meanwhile, took the opportunity to stress that BHP remained committed to its diverse spread of resource-based holdings – which include steel, petroleum, and minerals. "It's not necessarily popular, but it's served BHP well," he said.

But he also suggested that, in a low inflation climate, the group's objective would be at least to match the performance of its best-ranking peers in these businesses, rather than chase a specific percentage return.

French OATs hit by poll results

GOVERNMENT BONDS

By Gary Mead

On a day when many of the world's bond markets were closed for holidays, yesterday's spotlight fell on French government bonds following the electoral success for French left-wing parties.

Trading on the Matif in the benchmark June notional contract was heavier than expected, given that most dealers in the UK and US were away from their desks. In late trading the June contract settled at 128.30, down 0.54, having been as low as 128.22 earlier in the day.

Shorter-term contracts, which are often more sensitive to shifts in political sentiment, fell sharply. The June contract fell to the day's low of 96.18 in early dealing, later recovering to settle at 96.21, down 0.26.

In the cash market, the yield on the benchmark 10-year OAT rose 7 basis points to 6.63 per cent. The bond was still trading at a lower yield than its German counterpart, but the gap between the two narrowed from 14 to 10 basis points.

"The election result has knocked the bond market slightly but not seriously damaged it," said Mr Dominique Barbet, a specialist with Paribas Capital Markets, adding: "There's no sign of any panic in bonds."

Other bonds that would benefit from the convergence of European interest rates lost ground. Yields on benchmark 10-year Italian bonds rose 10 basis points 26 to 7.36 per cent, with the yield spread over German bunds widening from 138 to 144 basis points.

Spanish and Swedish bonds were also hit, with 10-year yield spreads over bunds widening from 67 to 71 basis points and from 114 to 117 points, respectively.

Black groups secure control of JCI

By Mark Ashurst in Cape Town

Black business groups in South Africa have salvaged their stake in JCI, the mining group which is in merger talks with Lonrho, after struggling for six months to finance the holding.

Mr Mzi Khumalo, JCI chairman, is tomorrow expected to announce a radical shake-up in the ownership of JCI which will establish him as South Africa's first black "randlord", in control of the world's sixth-largest gold producer.

He will also acquire a stake in Randgold, the mining group which has pioneered reforms in the industry, via a joint venture with Mr Brett Kebble, director of Consolidated Mining.

The new structure will extend ownership to minority members of the African Mining Group, who had failed to raise the funds to take up a stake in JCI, which was sold by Anglo American in November at a hefty premium to the market to promote black economic empowerment.

The new owners represent a range of black interest groups including rural women, trade unions and provincial committees.

Mr Khumalo, who yesterday paid R2.4bn ($537m) to Anglo American for a 30 per cent stake in JCI, would retain control of the enlarged group if JCI merged with Lonrho, the UK conglomerate. A final decision on the merger is expected this week, possibly tomorrow.

The sale of JCI has been criticised as largely symbolic, because Mr Khumalo has depended on a rights issue at Saflife, a local life assurer which he does not control, to fund the acquisition.

Minorities in the AMG failed to raise funds to acquire preference shares in Saflife and the rights issue, which had been underwritten by a syndicate of mainly white institutions, was only 8 per cent subscribed when it closed on Friday.

To date, AMG's only interest in JCI is an option to buy 4.9 per cent at a premium of more than 20 per cent to the current market price, on or before April 2 1998.

However, the new financing plan will accommodate minorities by vesting control of Saflife in NK Properties, a new joint venture vehicle controlled by Mr Khumalo with the Kebble family as a minority partner.

NKP, a dormant property company listed in London and Johannesburg, will acquire 34.9 per cent of Saflife from the underwriting syndicate in exchange for equity.

Saflife holds 30 per cent of JCI, and NKP is expected to hold a further 7 per cent of JCI directly. It will also absorb Consolidated Mining, which owns 20 per cent of Randgold.

A further 6.5 per cent of Saflife will be controlled by the AMG minorities via a second holding company, Witwatersrand Nigel, an NKP subsidiary listed in London and Johannesburg. AMG will acquire a controlling stake of 63.5 per cent of WitNigel in exchange for its option to buy 4.9 per cent of JCI.

Accor seeks to lift returns from hotels

By Andrew Jack in Paris

Accor, the French leisure group, plans to more than double the return on investment from its hotel activities in the next few years as part of a wide-ranging business plan to be unveiled next week.

Mr Jean-Marc Espalioux, chairman, also wants to build stronger connections between Accor's three core business divisions, as part of a strategy to be announced at the annual general meeting on June 4.

With advice from the Boston Consulting Group, he has co-ordinated 11 internal working groups in Accor over the past few months to develop the strategy, "Accor 2000", covering everything from a new corporate logo to cost reductions, purchasing discounts and plans to lift sales across the company.

A FFr500m ($87.8m) programme of technological investment will be under way by the end of next year, and Mr Espalioux believes Accor's new strategy should be at "cruising speed" by the turn of the century.

In an interview, the chairman defended the existence of the three divisions at the centre of the group – hotels, car rentals (through its stake in Europcar) and travel agencies – while planning a new corporate organisation designed to break down the internal "baronies" based around the group's leading brand names, which can hinder co-operation.

At the centre of his plan is the objective to boost the "synergies" between the divisions. He estimated that the current volume of cross-selling between the three businesses was "a few dozens of millions" of francs.

He said he planned to increase that rapidly to "several hundreds of millions", notably by increasing the links between the travel agencies and its hotel network.

Mr Espalioux said that business clients increasingly wanted packages from their travel agents which included accommodation, and stressed the importance of developing better information systems to improve a situation in which Accor travel agents sometimes "do not know all our available hotel offers".

Mr Espalioux said that Accor's hotels had been reporting a return on investment of about 5 per cent a year – or just 2 to 3 per cent ahead of acquisitions – and he aimed to rapidly increase this figure into double digits.

He defended Accor's fourth business activity – luncheon and other specialist vouchers – saying it was highly profitable and the group was the world leader.

He also said it was possible to make profitable Accor's catering service on *SNCF*, the French national railway network, which is heavily subsidised. This would require an extension to the existing contracts, from one year to five years.

Hylsamex ready to finance Sidor bid

By Leslie Crawford in Monterrey

Hylsamex, the steel subsidiary of Grupo Alfa, the Mexican industrial group, may prepare a new equity issue and take on extra debt if it wins the bid for Venezuela's Sidor, the last Latin American steel company in state hands.

Mr Alfonso González Migoya, Alfa's corporate vice-president, said Hylsamex was sounding out potential partners for the Sidor offer, but it was also prepared to bid on its own and had been authorised to issue up to $100m in new equity.

The government of Venezuela has postponed Sidor's privatisation three times, and it is now slated for July. Several international steel groups have expressed an interest.

Mr González Migoya said Hylsamex was refinancing a $175m bond that matures this year. The steel company had obtained a backstop facility of $125m from a group of international banks, and was negotiating a new $80m credit from a European bank. "We still need to raise a further $100m to cover the expansion programme that is currently under way in our steel mills," he said.

Given the willingness of international investment banks to lend to Mexican corporations, Hylsamex is unlikely to experience difficulties in raising additional funds. However, J.P. Morgan warned in a recent report: "In March 1997, Hylsamex had net debt to total capital of 39.9 per cent, which is by no means over-leveraged, but nor does it suggest an abundance of debt capacity."

Mr González Migoya said the expansion programmes at Hylsamex and Alpek, Alfa's petrochemicals division, would raise the group's overall debt this year by between $150m and $200m to about $2.2bn. However, given that Alfa is generating about $800m a year in cash, Mr González Migoya foresaw no difficulties in servicing the extra debt.

His one worry concerned the steady appreciation of the Mexican peso, which has gained 15 per cent in value against the dollar over the past 12 months, and depressed Alfa's dollar earnings when they are translated into pesos. "At today's rate, Alfa continues to export at a profit. However, we are concerned about the trajectory of the exchange rate," Mr González Migoya said.

EUROPEAN NEWS DIGEST

Santander shares lifted by shake-up

Shares in Banco Santander, Spain largest banking group, climbed after it said it would unify its treasury, asset management and corporate businesses. At the close in Madrid, the shares had lost some of their earlier gains but were still up Pta470, or 3.87 per cent, to Pta12,600.

Until now, the activities had been managed separately between Banco Santander and the investment banking arm, Santander Investment. The move was taken in light of Spain's likely membership of European monetary union and were aimed at preparing the group for the challenges involved.

Ms Ana Patricia Botin, executive vice-president, will be responsible for treasury, mutual and pension fund management and insurance, while Mr Juan Rodriguez Inciarte, executive vice-president, will be responsible for market and credit risk. The department of organisation and cost control will be headed by Mr Jose Ramon Jimenez, joining the bank as senior vice-president responsible for implementing greater operating efficiency. *Reuter, Madrid*

Charge hits Israel Discount

Israel Discount Bank, the country's third-largest, reported a 6 per cent fall in net income, blaming a one-off charge to cover a book loss on the sale of an overseas subsidiary. Net income fell from $19.9m in the first quarter of 1996 to $18.7m in the first three months of 1997, including the one-off charge of $5.5m. Excluding the charge, net income rose 22 per cent to $24.2m.

Income from financing activities before doubtful debt provisions fell 7 per cent to $160m. Provisions for doubtful debts rose from $24.4m to $25.3m, or 16 per cent of financing income but were 46 per cent lower than the $45.3m of the fourth quarter of last year. Last month, the government raised about Shk600m ($177m) in an offering of shares and warrants totalling 17 per cent of the bank's equity. *Avi Machlis, Jerusalem*

Telecoms lift Mannesmann

Rapid expansion in telecommunications helped lift turnover at Mannesmann, the German industrial group, to DM8.1bn ($4.8bn) in the first three months of this year, 15 per cent higher than for the same period of 1996. In telecoms, where Mannesmann is building up operations to take advantage of the German market's liberalisation next January, turnover rose 69 per cent. Mannesmann did not disclose first-quarter profit figures, but said the results had improved compared with a year earlier. For all 1997, "noticeable" gains were expected in thes engineering and "tubes and trading" divisions. However the company confirmed that start-up costs would hit telecommunications profits. *Ralph Atkins, Bonn*

Fiat chief sees higher sales

Fiat, Italy's largest private enterprise, expects its sales to rise by about 15 per cent this year and report profits at least as high as in 1996. This is the forecast without even discounting last year's substantial gains from the flotation of a 31 per cent stake in its New Holland farm machinery subsidiary and the sale of its Prime fund management group to Assicurazioni Generali.

Mr Cesare Romiti, chairman, said yesterday in an interview with the Turin daily newspaper La Stampa that sales this year were expected to total around L90,000bn ($54bn), compared with L78,000bn in 1996, when they rose 4 per cent over 1995. The group's consolidated net profits in 1996 were L2,371bn compared with L2,147bn in 1995 and included special gains of around L1,400bn from the sale of the New Holland stake and of Prime. *Paul Betts, Milan*

Gazprom signs Polish deal

Mr Rem Vyakhirev, chairman of Russian gas group Gazprom, was in Warsaw yesterday to sign a financing agreement for the first stage of the 650km Polish section of the natural gas pipeline from the Jamal peninsula to western Europe. Under the agreement, $1bn will be arranged by Gazprom, while Poland's Oil and Gas company will be responsible for borrowing a further $350m to fund construction of the initial stretch.

A liquidity squeeze at Gazprom has affected dealings with Polish companies, which have up until now provided food and consumer durables to Russia in exchange for natural gas under barter deals. Now Gazprom is demanding cash payments for the gas it delivers, leaving the Poles to export goods to the Russian market on their own account. *Christopher Bobinski, Warsaw*

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, May 23, 1997. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	7742.98	4750.00	2809.49	4116.30
Albania	(Lek)	273.042	167.500	99.0714	145.164
Algeria	(Dinar)	92.3203	56.6347	33.4978	49.0790
Andorra	(French Fr)	9.2857	5.6964	3.3693	4.9364
	(Sp Peseta)	232.444	142.595	84.3433	123.571
Angola	(Readj Kwanza)	320997.8	196919.0	116471.9	170647.8
Antigua	(E Carib $)	4.4013	2.7000	1.5970	2.3398
Argentina	(Peso)	1.6291	0.9994	0.5911	0.8661
Armenia	(Dram)	792.783o	486.340	287.656	421.457
Aruba	(Florin)	2.9179	1.7900	1.0587	1.5512
Australia	(Aus $)	2.1288	1.3059	0.7724	1.1317
Austria	(Schilling)	19.3971	11.8993	7.0383	10.3118
Azerbaijan	(Manat)	6526.920o	4004.00	2368.25	3469.82
Azores	(Port Escudo)	278.177	170.650	100.938	147.883
Bahamas	(Bahama $)	1.6301	1	0.5915	0.8666
Bahrain	(Dinar)	0.6146	0.3770	0.2230	0.3267
Balearic Is	(Sp Peseta)	232.444	142.595	84.3433	123.571
Bangladesh	(Taka)	71.1540	43.6500	25.8185	37.8288
Barbados	(Barb $)	3.2786	2.0113	1.1896	1.7430
Belarus	(Rouble)	70643.5o	43336.9	25632.5	37556.3
Belgium	(Belg Fr)	56.8905	34.9000	20.6429	30.2439
Belize	(B $)	3.2602	2.0000	1.1829	1.7332
Benin	(CFA Fr)	928.570	569.640	336.933	493.639
Bermuda	(Bermudian $)	1.6301	1	0.5915	0.8666
Bhutan	(Ngultrum)	58.2517	35.7350	21.1368	30.9675
Bolivia	(Boliviano)	8.5417	5.2400	3.0994	4.5409
Botswana	(Pula)	5.7708	3.5398	2.0938	3.0676
Brazil	(Real)	1.7455	1.0708	0.6334	0.9279
Brunei	(Brunei $)	2.3343	1.4320	0.8470	1.2410
Bulgaria	(Lev)	2573.11	1578.50	933.637	1367.91
Burkina Faso	(CFA Fr)	928.570	569.640	336.933	493.639
Burma	(Kyat)	10.0776	6.1822	3.6565	5.3574
Burundi	(Burundi Fr)	565.677	340.885	201.624	295.407
Cambodia	(Riel)	3749.23	2300.00	1360.38	1993.15
Cameroon	(CFA Fr)	928.570	569.640	336.933	493.639
Canada	(Canadian $)	2.2387	1.3734	0.8123	1.1901
Canary Is	(Sp Peseta)	232.444	142.595	84.3433	123.571
Cp. Verde	(CV Escudo)	151.396	92.8750	54.9329	80.4844
Cayman Is	(CI $)	1.3501	0.8282	0.4899	0.7177
Cent. Afr. Rep	(CFA Fr)	928.570	569.640	336.933	493.639
Chad	(CFA Fr)	928.570	569.640	336.933	493.639
Chile	(Chilean Peso)	683.501	419.300	248.011	363.361
China	(Yuan)	13.5173	8.2923	4.9048	7.1880
Colombia	(Col Peso)	1754.76	1076.48	636.723	932.867
Comoros	(Fr)	710.011	435.563	257.823	377.454
Congo	(CFA Fr)	928.570	569.640	336.933	493.639
Congo (DemRep)	(Zaire)(3)	114107.1	70000.0	41403.0	60661.2
Costa Rica	(Colon)	374.002	229.435	135.704	198.826
Côte d'Ivoire	(CFA Fr)	928.570	569.640	336.933	493.639
Croatia	(Kuna)	9.8492	6.0421	3.5737	5.2360
Cuba	(Cuban Peso)(1)	34.2321	21.0000	12.4209	18.1984
Cyprus	(Cyprus £)	0.8218	0.5041	0.2982	0.4369
Czech Rep.	(Koruna)	48.6577	29.8495	17.6556	25.8672
Denmark	(Danish Krone)	10.4958	6.4387	3.8084	5.5797
Djibouti Rep	(Djib Fr)	289.702	177.720	105.118	154.010
Dominica	(E Carib $)	4.4013	2.7000	1.5970	2.3398
Dominican Rep	(D Peso)	22.9783	14.0950	8.3368	12.2146
Ecuador	(Sucre)	6381.84o	3915.00	2315.61	3392.69
	(Sucre)	6308.49a	3870.00	2288.99	3353.70
Egypt	(Egyptian £)	5.5345	3.3952	2.0082	2.9422
El Salvador	(Colon)	14.2715	8.7550	5.1783	7.5870
Equat'l Guinea	(CFA Fr)	928.570	569.640	336.933	493.639
Estonia	(Kroon)	22.0520	13.5280	8.0014	11.7232
Ethiopia	(Ethiopian Birr)	10.5468	6.4700	3.8268	5.6068
Falkland Is	(Falk £)	1	0.6135	0.3629	0.5316
Faroe Is	(Danish Krone)	10.4958	6.4387	3.8084	5.5797
Fiji Is	(Fiji $)	2.2895	1.4045	0.8307	1.2171
Finland	(Markka)	8.3154	5.1012	3.0173	4.4208
France	(Fr)	9.2857	5.6964	3.3693	4.9364
Fr. Cty/Africa	(CFA Fr)	928.570	569.640	336.933	493.639
Fr. Guiana	(Local Fr)	9.2857	5.6964	3.3693	4.9364
Fr. Pacific Is	(CFP Fr)	168.688	103.490	61.2113	89.6833
Gabon	(CFA Fr)	928.570	569.640	336.933	493.639
Gambia	(Dalasi)	16.1519	9.9085	5.8606	8.5866
Germany	(D-Mark)	2.7559	1.6907	1	1.4651
Ghana	(Cedi)	3260.20	2000.00	1182.94	1733.18

		£ STG	US $	D-MARK	YEN (X 100)
Gibraltar	(Gib £)	1	0.6135	0.3629	0.5316
Greece	(Drachma)	440.152	270.015	159.711	233.992
Greenland	(Danish Krone)	10.4958	6.4387	3.8084	5.5797
Grenada	(E Carib $)	4.4013	2.7000	1.5970	2.3398
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

		£ STG	US $	D-MARK	YEN (X 100)
Pakistan	(Pak. Rupee)(2)	66.7739	40.3496	23.8663	34.9695
Panama	(Balboa)	1.6301	1	0.5915	0.8666
Papua New Guinea	(Kina)	2.2824	1.3979	0.8209	1.2027
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Abbreviations: (a) Free rate; (m) Market rate; (o) Official rate. (r) Parallel rate (t) Tourist rate [illegible] 10/96 (3) Name changed from Zaire on May 19th 1997, currency scheduled to change to C[illegible] of America, [illegible]
To obtain a copy of this table by Fax [illegible]
Friday, May 23, 1997

COMPANIES AND FINANCE: ASIA-PACIFIC

Japanese trust banks return to the black

By Gillian Tett in Tokyo

Japan's trust banking sector returned to profit in the 1996 fiscal year, after heavy write-offs for property-related bad loans were responsible for a large loss in fiscal 1995.

The seven trust banks reported a combined recurring pre-tax profit of Y124.38bn ($1.1bn) – a sharp improvement from the previous year's loss of Y1,396bn.

The upturn partly reflected new accounting measures brought in by the government during the last fiscal year to help the banks write off bad debts.

These allowed the banks to lower the levels of special retained earnings which they have to hold to guarantee the repayment of loan trust principals.

By lowering the level of these earnings, the banks were able to use some of their capital to make bad loan provisions.

However, the banks also reported reasonably healthy levels of fee income, and forecast that they would remain in profit in fiscal 1997. Six of the seven trust banks reported pre-tax recurring profits, with Mitsubishi Trust, the largest, posting recurring profits of Y79bn, compared with a loss of Y321bn in the previous fiscal year.

At the other end of the scale, Nippon Trust was the only bank to report a second year of recurring loss – though at Y2.8bn its recurring loss was far smaller than that of the previous year's Y43.4bn.

All the others – Mitsui Trust, Sumitomo Trust, Yasuda Trust, Toyo Trust and Chuo Trust – reported profits of between Y5bn and Y20bn.

Some analysts yesterday hailed the results as a sign that the underlying trend in the banking results was improving.

However, Mr Shigeru Kobayashi, deputy president of Mitsubishi Trust, warned that the banks did not expect net profits to rise substantially in this fiscal year, due to sluggish demand for loans and the weakness of the property market.

Although the banks also expected interest rates to rise this year, this would probably not hurt them too badly, he added.

In a sign of the continuing financial pressures, two groups said that they planned to issue debt in an attempt to raise their capital adequacy ratios.

Sumitomo Trust announced that it planned to issue about Y110bn worth of yen-denominated debt.

Meanwhile, Toyo Trust said it would shortly issue Y50bn of euro-yen debt with share conversion rights, and another Y50bn of euro-yen convertible bonds.

Red chips remain hot property

Overnight returns of up to 100% are keeping demand high, writes Louise Lucas

Postmen will this week be delivering returned cheques – and, for a lucky few, share certificates – to applicants for Hong Kong's record-breaking share offer for the investment arm of the Beijing municipal government.

Applications for shares in Beijing Enterprises are still being processed, but it is already clear that the issue has been oversubscribed more than 1,000 times – a record even by the euphoric standards of red chips, or mainland-backed Hong Kong companies.

Investors have been smitten with the red chips, partly because of their links to China's economy and partly because of their performance record.

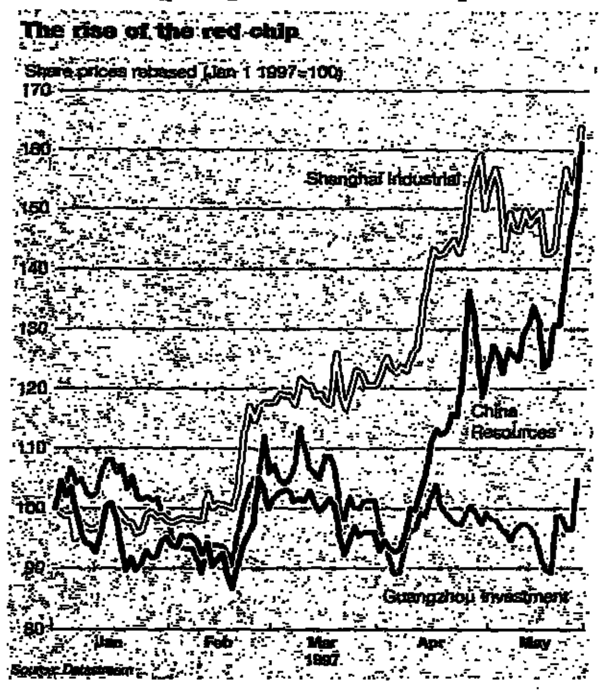
Such stocks have risen more than 40 per cent so far this year, and in many cases investors have been rewarded with overnight returns of up to 100 per cent.

Beijing Enterprises is already trading in the grey market at three times the issue price. Shanghai Industrial, which a year ago heralded the current wave of municipal government red chips, closed on Friday at HK$44, five times the HK$7.28 issue price.

The wealth generated by such offerings is filtering down through the economy: to the post office, printers and, of course, the banks.

For the latter, that wealth has tended to gather in a relatively small pool, suggesting that the red chips are taking a more selective approach to the distribution of mandates than the state-owned enterprises coming to market. These have spread their business equitably around Hong Kong's investment banking community.

Banks heading the red-chip league include Peregrine Investments, the pan-Asian investment bank, and Morgan Stanley, of the US (these two co-sponsored the Beijing Enterprises issue); ABN Amro Rothschild, the year-old Anglo-Dutch equity capital markets joint venture, and BZW Asia.



More lucrative than the initial public offerings themselves – which tend to be small and shared with a slew of underwriters – are the placements that invariably follow.

Part of the cachet of red chips for investors has been their habit of acquiring favourably-priced assets from the mainland parent shortly after listing – a tendency under review by Beijing authorities concerned at this outflow of assets into foreigners' hands.

These assets are generally financed with a secondary share offering, or placement, which are the real money-spinners – fees are between 1.5 per cent and 2.5 per cent and the work (such as documentation and distribution) is far less arduous and time consuming than on an IPO.

Placements are also more easily priced, as there is a traded benchmark. When it comes to IPOs, the heavy oversubscription rates suggest bankers are guilty of understatement when they concede that "pricing is an inexact science".

If pricing is what the market will bear, then that suggests the margin of inexactitude is as big as last week's queues for forms. But the bankers prefer to attribute this to an inefficient retail offering mechanism and the relatively small size of public issues.

There is certainly an element of this, which is why the Hong Kong regulators last week introduced interim measures to stop investors applying for the maximum value of the offering.

Since applications, if successful in the ballot process, are scaled back, investors apply for the maximum in the hope of getting a smaller tranche – thus, the arguement goes, the level of oversubscription does not give a true picture of demand.

Nevertheless, it cannot be long before issuers start demanding bigger returns from their sponsors. At the moment they have a big sop: simply by depositing applicants' cheques, red chips can scoop big windfalls.

But in the case of Beijing Enterprises, small cheques will not be cashed – in part because of fears that a substantial amount of money will be frozen in the banking system.

Plan for Vietnam's first stock exchange

By Jeremy Grant in Hanoi

Vietnam's State Securities Commission plans to submit a proposal to the government next month outlining how the communist-run country's first stock exchange could be set up and run.

Mr Vu Bang, a senior SCC official, said the proposal included suggestions for the scope of foreign brokerage participation on the eventual bourse.

He declined to elaborate, but Hanoi has indicated it might allow joint ventures or grant foreign securities houses individual branch status.

Last month, Daiwa Securities, of Japan, signed a memorandum of understanding with a Vietnamese bank to set up a joint brokerage.

Mr Bang said the SCC had also completed a draft securities ordinance following consultations with the International Finance Corporation, the World Bank affiliate. That could be submitted to the country's National Assembly, or parliament, by the third quarter.

Vietnam plans to set up the stock exchange in Ho Chi Minh City, the southern commercial hub. But analysts said a launch was still years away.

The project, which was first mooted in the early 1990s, has been repeatedly delayed by a lack of suitable candidates for listing and poor accounting standards.

A privatisation programme that was designed to groom some state-owned companies for public offering has been stalled for about two years.

Vietnam's private companies are too small to warrant listing, while the country's auditing and accounting systems are still rooted in the Soviet era.

An Feng deal is 'fair and reasonable'

By Nikki Tait in Sydney

The reverse takeover of An Feng, Taiwan's second largest steel group, by Kingstream Resources, a much smaller Australian resources company, has been described as "fair and reasonable" by an independent report.

Both companies said that publication of the report yesterday should pave the way for the merger and for a subsequent A$500m (US$383m) equity capital-raising, related to the ambitious Midwest iron and steel project in Western Australia.

The companies said the amount sought would "depend on final project costing", but indicated that they hoped to undertake the fund-raising in the second half of 1997.

The A$1.4bn Midwest project envisages the development of an integrated "direct reduced iron" pellet and steel slab plant near Geraldton, in Western Australia. The plant would use iron ore deposits at Tallering Peak, also in WA, and would be the first steel-making facility in the state, which houses rich iron ore deposits.

The independent report, by Grant Samuel, acknowledged that both the takeover and the associated venture had significant risks.

It noted that An Feng was highly-geared and committed to significant capital expenditures, and that there was "little definitive information on the financial position or stability of Mr Chu, Madam Wu and their associates" – the main shareholders in An Feng.

If the reverse takeover goes ahead, Mr Chu, Madam Wu and their associates would own 62.1 per cent of Kingstream. Existing Kingstream shareholders would have 21 per cent.

But Grant Samuel added that if the Midwest scheme went ahead as a joint venture only, the benefits of the merger would outweigh the drawbacks. These include conflicts of interest for An Feng and excessive exposure for Kingstream to a large but potentially risky project.

Kingstream shareholders will be asked to vote on the reverse takeover – the first big Taiwanese venture in Australia – on June 18.

The deal was announced on January 3.

ASIA-PACIFIC NEWS DIGEST

Mitsubishi Materials up 27%

Mitsubishi Materials, the Japanese ceramics and metals group, brushed aside a fall in aluminium product sales and reported a firm rise in profits for the year to March. The company, a leading maker of aluminium cans, reported a 4 per cent rise in parent sales from Y723.5bn to Y749.4bn ($6.5bn). The group attributed the rise to buoyant demand for fabricated metal products from the car industry, firm demand from the information technology industry, higher exports and cement construction materials.

Demand for these products overcame a fall in aluminium product prices during the year and, combined with cost-cutting measures and the beneficial impact of the weaker yen, helped to boost recurring profits by 27 per cent to from Y8.3bn Y10.5bn. Net income rose 79 per cent from Y2.3bn to Y4bn.

Mitsubishi Materials said it expected the trading environment to remain tough in the current year amid a decline in public works activity, which was expected to impact cement sales, and price declines for many of its mainline products.

However, the group believes higher sales of advanced and silicon products to the information technology industry, as well as lower costs, will help it lift sales and recurring profits in the current year to Y765bn and Y13.5bn, respectively. Net income is also expected to increase substantially, to Y6.5bn.

Michiyo Nakamoto, Tokyo

Weak yen helps lift Kubota

Kubota, the Japanese producer of farm machinery and iron pipes, yesterday reported a rise in annual sales and profits, thanks to a strong export performance helped by a weak yen. The group announced a 6.5 per cent increase in consolidated turnover to Y1,141bn, slightly more than its own forecast. Pre-tax profit rose 9 per cent to Y60.2bn. Net profits rose by 15.6 per cent to Y28.9bn, leaving earnings up by just over Y2 per share at Y18.84 per share.

Export sales rose 13.6 per cent to Y 21.7bn, but domestic sales climbed more slowly, rising 5.3 per cent to Y48.1bn. While the yen's fall helped exports, Kubota also attributed its strong overseas performance to higher sales of industrial and engineering products, led by industrial castings and computer peripherals.

The parent company, which is more exposed to the domestic market than the group, did slightly less well. It announced a 4 per cent increase in consolidated turnover to Y835bn in the year to March, on which pre-tax profit increased 4.9 per cent to Y35.8bn. Net unconsolidated profits rose 5.8 per cent over the same period, to Y18bn.

Kubota gave no consolidated forecast, but the parent expects unconsolidated sales to rise 4.6 per cent to Y840bn in the year to next March, on which net profits are projected to rise just 2.8 per cent to Y18.5bn.

William Dawkins, Tokyo

ICI India advances 20%

Strong growth in paints and explosives helped ICI achieve a 20 per cent increase in net profits for the year to March 31 as net sales rose 15 per cent. Pre-tax profits rose 12 per cent from Rs620m to Rs696m ($19.44m) on sales of Rs6.7bn. Net profits increased from Rs349.7m to Rs421m; earnings per share rose from Rs8.56 to Rs10.42. The annual dividend goes up 12.5 per cent to Rs4.50 a share.

ICI India is investing Rs1bn to build a paint factory at Mohali and a polyurethane blending plant at Thane. The company, which aims to raise sales to Rs50bn by 2005, sees a "period of rapid growth" based on the "current strong businesses" and "new activities".

Kunal Bose, Calcutta

Qantas shuffles management

Qantas, the Australian airline in which British Airways holds a 25 per cent interest, yesterday announced management changes which it said were part of its cost-cutting programme. Under the plan, the operations division and associated business division will be merged into other areas. Mr Gary Tommey, finance director, will take responsibility for airports, freight and catering, and Mr Geoff Dixon, who looks after commercial operations, will take on in-flight services and resorts.

Nikki Tait, Sydney

Telefónica, Unisource sever ties

By Tom Burns in Madrid

Telefónica and the Unisource alliance are likely to agree a "divorce settlement" within two weeks, scarcely a month after the Spanish operator withdrew to join the Concert alliance of British Telecommunications and MCI.

The settlement involves the return by Telefónica of the 25 per cent stake it acquired in Unisource and a compensatory cash payment by the Spanish company to its former partners – the national carriers of The Netherlands, Sweden and Switzerland.

Telefónica will regain control of TTD, a data transmission company it handed over to Unisource as part of the equity purchase. Telefónica said yesterday that the cash compensation would be "considerably lower" than a figure of Pta18bn ($126m) that has been quoted by the Spanish press.

The operator claims it incurred losses of Pta7bn last year through its Unisource involvement.

Details of the severance have been agreed by representatives of both sides, who began meeting in Madrid and in Amsterdam, Unisource's headquarters, shortly after Telefónica switched to Concert. The terms now have to be approved by the Telefónica and Unisource boards.

Sources close to the negotiations said final approval was expected before June 9, when competing bids have to be entered for the acquisition of Retevisión, Spain's second fixed-line telecoms operator.

This timing will allow Unisource, which was excluded from the Retevisión bidding process because of its ties with Telefónica, to negotiate a presence in the Spanish market.

Italy's Stet and Mannesmann, of Germany, which both have links with Unisource and with AT&T, the US ally of the European partnership, are preparing separate bids for Retevisión.

A third bid is being drawn up by France Telecom and Sprint, of the US, which with Deutsche Telekom form the rival Global One alliance.

Once the Telefónica-Unisource knot is untied, the Spanish company and BT will press ahead with an exchange of equity valued at some Pta65bn.

It was agreed last month that Telefónica would take about 1 per cent of BT and that the UK company would acquire about 2 per cent of its Spanish partner.

BT is also expected to dispose of the 15.8 per cent stake in Airtel, a domestic cellular phone network that competes with Telefónica, as well as sell a data transmission company it created in Spain four years ago.

Telefónica is to become the exclusive provider of Concert services in Spain.

Meanwhile, Telefónica will tomorrow hold its monthly board meeting in Washington, in a move to emphasise the transatlantic nature of its strategic agreement with Concert.

The board will appoint Mr Fernando Panizo to manage Telefónica Panamericana MCI, a company based in Miami and jointly owned with MCI that will develop a fibre optic network providing integrated services to customers in the Americas.

Mr Panizo is a senior executive of Tisa, the Spanish company's international subsidiary and the dominant foreign operator in Latin America.

Gaylord puts faith in new genre

The company that made its fortune from country is turning to Christian music

Suited, dapper and sprightly, Mr Earl "Bud" Wendell is an unlikely looking country music impresario. Yet he has probably done more than anyone to turn the sound of twanging guitars and plaintiff cowboy laments into one of the biggest music industry success stories of recent years.

Recently, at the age of 70, Mr Wendell announced he was retiring as chief executive of Gaylord Entertainment, a company which has made a fortune for its shareholders on the back of the country music craze.

Rather than look back, though, he was more interested in looking ahead, to what he believes will be the next great success story in US entertainment: Christian music. If he is right, then Nashville-based Gaylord could be set for one of the most unlikely encores the industry has seen.

"A lot of people got turned off by hard rock, and they didn't like rap," said Mr Wendell. "Big band music disappeared on them, they had to go somewhere."

That was the soil that nourished the middle of the road sound of modern country music. Add in the resurgence of interest in the US about traditional moral values and the strength of the Christian movement, and it could also produce the country's next music craze.

"We're thrilled about it," Mr Wendell said. "We're seeing a move back to traditional family values."

It is impossible to go far in Nashville, home of country music, without stumbling on monuments to Gaylord's success. They include the refurbished former tabernacle where country music's most famous show, the Grand Ole Opry, began more than 70 years ago, as well as newer venues like the massive Opryland Hotel, one of the biggest resort hotels in the US.

"What Bud has done for this industry has been pretty incredible," said Mr Terry London, the man who now takes over from him.

Top of that list was the creation of TNN and CMT, two cable television networks that Gaylord agreed to sell to Westinghouse Electric for $1.6bn in stock.

TNN had just been launched in 1983 when Mr Edward Gaylord paid $225m for a collection of country music assets. By the end of last year, it had grown into one of the most successful cable networks in the country, with revenues of $252m.

Country music's share of US record sales, in the meantime, grew from 5 per cent to a peak two years ago of about 18 per cent. That may go down as the genre's high-water mark: last year, country fell back to 15 per cent of sales. "We think it's plateaued, and then it will rise again," Mr Wendell said.

But Gaylord, while remaining heavily dependent on country, has placed its next bet on a different musical form. In 1994, it acquired an option to buy Z Music, a cable network that transmits Christian music videos. Then, earlier this year, it acquired a Christian music publisher whose stars include the widely-acknowledged leader of the genre, Ms Amy Grant.

According to Mr London, there are many parallels between this musical genre and the country scene some years ago. Contemporary Christian music is also based in Nashville, he said, and accounts for only about 3–4 per cent of record sales.

And just as country's success was based on its evolution into a musical style with broad appeal, so Christian music's growth will be dependent on its ability to reach a larger audience. Though taking many different musical forms, from gospel to reggae, the new stars of the genre play a gentle form of pop music.


Amy Grant, one of the stars of the Christian music genre

"We believe there is a desire to see a family values product that is different from what is available today," Mr London said – though he added that this did not mean diluting the content. "We're not embarrassed about putting forward a Christian message."

To repeat the trick is likely to prove difficult, though. The success of country music was due in large part to the growth in radio stations that are devoted to this style of music: there are now reckoned to be 2,500 such stations in the US, including half of the 100 largest. TNN, a network that Gaylord says promotes the "country lifestyle", is available in 97 per cent of the US homes that are hooked up to cable systems.

Christian music may find it harder to find a mass audience. The airwaves in the Nashville area, like much of the South, are littered with Christian radio stations – but these are primarily bent on proselytising, not promoting the music that companies like Gaylord seek to sell.

Nor will Gaylord be setting out to buy radio stations to promote its new musical form. Rather, prompted by the high prices at which US television and radio stations have been changing hands recently, it has been shrinking its broadcasting base of late. And Z Music is available round-the-clock in only 1m cable homes so far, held back by the limit in bandwidth that has produced a temporary bottleneck in the development of the multi-channel future.

All of this means that the boom in the Christian music could be some time coming. In the meantime, the new Gaylord will be largely dependent on its hotel and other hospitality ventures, which it hopes to extend across the country through partnerships with other companies.

And there will still be country – and a small cable network in the form of CMT International, which reaches 6.8m homes outside the US.

"There is every sign there is a market around the world for country music," said Mr Wendell. It is a form of music that is based, after all, on "true stories – human stories. We've always felt it was more pure than most other forms of music".

Richard Waters

Europe gets taste for high-yield debt

By Samer Iskandar and Edward Luce

To the casual observer, the recent birth of a high-yield bond sector in Europe might conjure up images of the racy US junk market of the late 1980s, when a series of defaults left many investors with losses. The US market's reputation for unscrupulousness has only recently been dispelled.

But Europe's fledgling junk bond market is unlikely to become a stamping ground for cowboys. Investors tempted to take a closer look will be reassured by the status of its market makers – blue-chip investment banks including Morgan Stanley, Credit Suisse First Boston, Bankers Trust and Salomon Brothers – and indications that they are stressing the importance of transparency and detailed disclosure.

So far, the response to Europe's first four high-yield issues from institutional investors has been enthusiastic. The DM160m deal by Geberit, a Swiss sanitary-ware company, which kicked off the new market in March, was heavily oversubscribed.

Three subsequent deals have also been well-received. Bankers say that demand for the bonds – a DM175m offering from Exide, a leading battery maker; a £125m issue by Castle Transmissions, a UK television company; and a DM200m bond from Impress, a European can producer – has exceeded expectations.

Mr Michael Ridley, director of fixed income at Salomon Brothers, which arranged the Impress deal, said that 63 institutional buyers had bought the paper. That was more than double the number of orders Salomon had been expecting.

"European banks and investment funds are clearly doing a lot of homework into the high-yield market and they like what they see," Mr Ridley said.

High-yield bonds are speculative debt securities issued by companies with credit ratings below rating agencies' "investment grade" threshold – BBB- and Baa3 from Standard & Poor's and Moody's, respectively.

In exchange for the higher credit risk, the issuer rewards investors with substantial interest margins over benchmark government or corporate bonds.

Geberit, for example, was offered to investors with a coupon of 10.125 per cent. This compares with returns of less than 6 per cent on 10-year German government bonds, or bunds.

Bankers are optimistic that the market will grow quickly. They expect between 10 and 15 issues this year for a total amount of more than $1bn.

Issuance could double in 1998 and the total size of the European high-yield market could settle between $20bn and $30bn in coming years as the sector matures. This compares with a market of more than $150bn in the US.

But bankers say that some stereotypes must still be overcome before mainstream investors are comfortable with European high-yielding paper.

Europe's only previous experience of junk bonds was in Switzerland, where a lively market for high-yield corporate debt collapsed in the early 1990s after a number of defaults.

Part of the problem was the quality of the issuers which included Polly Peck, the UK company which subsequently became insolvent, and Australia's Bond Corporation, which became mired in legal controversy.

Bankers active in the nascent market are adamant the mistakes of the past will be avoided.

"The Swiss junk bond market was completely unregulated and institutional investors were not well educated in the market for credit risk," said a senior official at a large US bank in London. "This time round it is in everyone's interest to avoid those mistakes."

They are emphasising the importance of providing detailed information to investors, for example.

The prospectuses of recent issues contain more information on companies than is required by market regulators. "We have deliberately chosen to adopt SEC-style disclosure," said a syndicate manager, referring to disclosure rules imposed by the US Securities and Exchange Commission, widely viewed as the strictest in the world.

The prospectus of one recent issue, for example, states clearly in prominent bold letters on the cover: "See 'risk factors' on page 16". Detailed descriptions of the company's financial position follow, including references to the parent company's indebtedness and warnings that expansion plans impose "significant capital requirements".

Bankers say that there are other conditions in favour of the development of a European junk bond market.

Tight monetary conditions in Europe, are forcing investors to accept much lower yields than before on government and private sector bonds.

This, coupled with the fact that European monetary union in 1999 will eliminate the exchahge rate gains to be made from bonds denominated in a foreign currency, means that investors are increasingly focusing on credit.

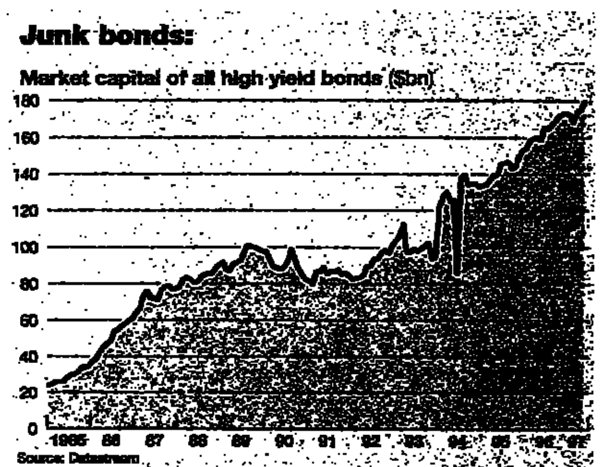
Added to this, the creation of a genuine single market in Europe means there will be far more takeovers, mergers and leveraged buy-outs than before. To the yield-hungry bond investor this can only mean one thing.

"Investors are going to have to concentrate much more on credit stories if they want to maintain the portfolio returns they are used to," said one banker.

"To put it crudely, that means there's going to be a growing appetite for junk bonds in Europe."

Junk bonds:

Market capital of all high yield bonds ($bn)



Source: Datastream

New European junk issues

Date	Issuer	Size	[illegible]
March	Geberit	DM160m	10.125%
April	Exide	DM175m	[illegible]
May	Castle Transmission	£125m	9%
May	Impress Metals	DM200m	[illegible]

Source: FT

CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

May 23	Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
[illegible]												

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

May 23	Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan Index
[illegible]												
[illegible]		+0.0004	300 - 320	1.4325	1.4280	1.4307	1.4	1.4266	1.6	1.4049	1.9	-
[illegible]			710 - 740	4.4785	4.4710	4.5115	-10.6	4.589	-10.5	4.887	-9.3	-
[illegible]			600 - 900	892.000	891.600	-	-	-	-	-	-	-
Taiwan		+0.001	180 - 250	27.8250	27.7980	27.8267	0.0	27.828	0.0	27.8323	0.0	-
Thailand		-0.12	600 - 600	25.9200	25.5800	25.5913	-2.9	25.715	-2.9	26.285	-3.0	-

[illegible] Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices May [illegible]. Some values in this table are also available on the internet at http://www.FT.com

WORLD INTEREST RATES

MONEY RATES

May 23	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
[illegible]								

EURO CURRENCY INTEREST RATES

May 23	Short term	7 days notice	One month	Three months	Six months	One year
[illegible]						

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	[illegible]						
Sep	93.96	93.97	+0.02	94.00	93.95	99,931	468,193
Dec	93.71	93.73	+0.02	93.75	93.71	140,276	354,552

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	94.83	94.82	-0.01	94.84	94.81	629	4,893
Sep	94.57	94.56	+0.01	94.57	94.56	117	4,861

All Open interest figs. are for previous day

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

May 23	BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
[illegible]																	

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Sett price	Change	High	Low	Est. vol	Open int.
[illegible]							

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Sett price	Change	High	Low	Est. vol	Open int.
[illegible]							

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

	Open	Sett price	Change	High	Low	Est. vol	Open int.
[illegible]							

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Sett price	Change	High	Low	Est. vol	Open int.
[illegible]							

EMS EUROPEAN CURRENCY UNIT RATES

May 23	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. Ind.
Ireland	0.798709	0.761521	-0.001312	-4.66	7.20	31
Portugal	197.398	197.723	+0.341	0.16	2.04	-1
Spain	163.826	165.207	+0.204	0.84	1.35	-6
Finland	5.85424	5.90739	+0.0103	0.91	1.28	-6
Italy	1906.48	1928.13	+1.18	1.14	1.06	-8
Netherlands	2.16979	2.19958	-0.00032	1.38	0.82	-10
Denmark	7.34555	7.44979	-0.00155	1.42	0.77	-10
Germany	1.92573	1.95616	-0.00056	1.58	0.61	-16
Austria	13.5485	13.7683	-0.0046	1.62	0.57	-12
Belgium	39.7191	40.3613	-0.0066	1.67	0.53	-12
France	6.45863	6.60100	+0.00979	2.20	0.00	-19
NON ERM MEMBERS						
Greece	295.269	312.733	+0.367	5.91	-3.50	-
UK	0.793103	0.705993	-0.001521	-10.98	14.81	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. 17/9/92: Sterling suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Jun	Jul	Aug	PUTS Jun	Jul	Aug
[illegible]						

Previous day's vol., Calls n/a Puts n/a. Prev. day's open int., Calls n/a Puts n/a

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

Strike Price	CALLS Jun	Jul	Aug	PUTS Jun	Jul	Aug
0.585	0.89	1.20	1.48	0.27	0.46	0.64
0.590	0.59	0.90	1.18	0.45	0.66	0.84
0.595	0.36	0.65	0.95	0.73	0.92	1.09

Previous day's vol., Calls n/a Puts n/a. Prev. day's open int., Calls n/a Puts n/a

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FF500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
[illegible]							

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	CALLS			PUTS		
[illegible]						

■ THREE MONTH PIBOR FUTURES (MATIF) Paris Interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
[illegible]							

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
[illegible]							

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
[illegible]							

FTSE GOLD MINES INDEX

[illegible]									

UK INTEREST RATES

LONDON MONEY RATES

May 23	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling CDs	-	-	[illegible]	[illegible]	[illegible]	[illegible]
Treasury Bills	-	-	[illegible]	[illegible]	-	-
Bank Bills	-	-	[illegible]	[illegible]	[illegible]	-
Local authority deps.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Discount Market deps	[illegible]	[illegible]	-	-	-	-

UK clearing bank base lending rate $6\frac{1}{4}$ per cent from May 6, 1997

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	$2\frac{1}{2}$	$5\frac{1}{2}$	5	5	$4\frac{3}{4}$

Certs of Tax dep. under £100,000 is $2\frac{1}{2}$pc. Deposits withdrawn for cash $1\frac{1}{4}$pc.
Ave. tender rate of discount on May 23, 6.1145pc. ECGD fixed rate Stlg. Export Finance. Make up day Apr 30, 1997. Agreed rate for period May 26, 1997 to Jun 24, 1997, Scheme III 7.71pc. Reference rate for period Mar 28, 1997 to Apr 30, 1997. Schemes IV & V 6.450pc. Finance House Base Rate $6\frac{1}{2}$pc from May 1, 1997

BANK OF ENGLAND TREASURY BILL TENDER

	May 23	May 16
Bills on offer	£200m	£200m
Total of applications	£1218m	£1498m
Total allocated	£200m	£200m
Min. accepted bid	£98.470	£98.475
Allotment at min. level	2%	47%

	May 23	May 16
Top accepted rate	6.1368%	6.1167%
Ave. rate of discount	6.1156%	6.1061%
Average yield	6.2102%	6.2004%
Offer at next tender	£200m	£200m
Min. accept. bid 92 days	-	-

■ Pound in New York

May 23	—Close—	—Prev. close—
£ spot	1.6345	1.6245
1 mth	1.6335	1.6236
3 mth	1.6327	1.6217
1 yr	1.6238	1.6135

FT GUIDE to WORLD CURRENCIES

The FT Guide to World Currencies table can be found on the ICN page in today's edition.

BASE LENDING RATES

	%		%		%
Adam & Company	6.25	Duncan Lawrie	6.25	●Singer & Friedlander	6.25
Allied Irish Bank (GB)	6.25	Exeter Bank Limited	7.25	●Smith & Williamson Secs	6.25
●Henry Ansbacher	6.25	Financial & Gen Bank	7.00	Scottish Widows Bank	6.00
Bank of Baroda	6.25	●Robert Fleming & Co	6.25	TSB	6.25
Banco Bilbao Vizcaya	6.25	●Guinness Mahon	6.25	United Bank of Kuwait	6.25
Bank of Cyprus	6.25	Habib Bank AG Zurich	6.25	Unity Trust Bank Plc	6.00
Bank of Ireland	6.25	●Hambros Bank	6.25	Western Trust	6.25
Bank of India	6.00	Heritable & Gen Inv Bk.	6.25	Whiteaway Laidlaw	6.25
Bank of Scotland	6.25	C. Hoare & Co	6.25	Yorkshire Bank	6.25
Barclays Bank	6.25	Hongkong & Shanghai	6.25		
Brit Bk of Mid East	6.25	Investec Bank (UK) Ltd	6.25		
●Brown Shipley & Co Ltd	6.25	Julian Hodge Bank	6.25		
Citibank NA	6.25	●Leopold Joseph & Sons	6.25		
Clydesdale Bank	6.25	Lloyds Bank	6.25		
The Co-operative Bank	6.25	Midland Bank	6.25		
Coutts & Co	6.25	NatWestminster	6.25		
Cyprus Popular Bank	6.25	●Rea Brothers	6.25		
		Royal Bk of Scotland	6.25		

● Members of London Investment Banking Association
* In administration

JOTTER PAD

UK GILTS PRICES

[illegible]						

Other Fixed Interest

[illegible]						

CROSSWORD

No.9,385 Set by ARMONIE

ACROSS

1 Faraway places serving the conductor's purposes (4,2,3,5)
10 Helium in useful quantities *is somewhat lacking* (5)
11 After a drink seek a battle (9)
12 This sly eccentric is fashionable (7)
13 Queen is introduced to man before seeing dairy product (7)
14 After a bit of sleep, one in bed turned over resigned (5)
16 Doctor continued, not *having been observed* (9)
19 Young getting disease from one spreading rubbish abroad (9)
20 Rummage round stable, initially for a *place to sleep* (5)
22 Prophet having former *prime minister* in a tangle (7)
25 Model managed to pose in conveyance (7)
27 Real idiot unsettled leader (9)
28 Understanding European carp (5)
29 *The otter, owl and bat* disturbed the comfort of the retired (3-5,6)

DOWN

2 Girl in New York's to attack beast (5,4)
3 Somewhat suspicious welcome for Japanese dish (5)
4 *Fellow's to tie plant to get* strong light source (9)
5 Running at speed and turning away after dropping pole (5)
6 England's openers opposing hostile contest (9)
7 *We hear forage is found in* regular journey (5)
8 The impetuous person is the one in the brick container (7)
9 A *Greek nonet* entertains (6)
15 Drink inspires lots of material to fill the end of written work (5,4)
17 *Empty-headed paladin put* on suit for place of entertainment (9)
18 Winger is to pass the ball over, gaining notice (9)
19 *Turner* baselessly accepts honour in palace (7)
21 Scrap dealer is to be on the *verge of ruin* (6)
23 Raise one gets in the army (5)
24 *English support for expedition* is complete nonsense (5)
26 Rising artist picked up the vernacular (5)

Solution to Saturday's prize puzzle on Saturday June 7.
Solution to yesterday's prize puzzle on Monday June 9.

FT MANAGED FUNDS SERVICE

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd
Pembroke Hall, Pembroke, Bermuda
UK: Fund Advisors 0800 414181 — Jersey: 01534 71696
Private Clients 0800 414181 — 00 352 250404230
Fund Orders (44) 1732 777377 — Hong Kong (852) 848 1000

	Selling Price	Buying Price	+ or -	Yield Gr's
A$ Accum	A$19.701		—	4.90
ASch Accum	Sch251.89		—	2.10
C$ Accum	C$16.928		—	2.00
DM Accum	DM38.758		—	2.00
DFl Accum	Dfl31.988		—	1.90
ECU Accum	Ecu13.728		—	3.00
FFr Accum	FFr87.879		—	2.10
HK$ Accum	HK$124.30		—	4.90
Lire Accum	L24503		—	6.10
NZ$ Accum	NZ$41.804		—	5.90
NKr Accum	NKr114.09		—	1.30
S$ Accum	S$26.390		—	2.60
SPta Accum	Pta2814.3		—	4.20
£ Accum	£13.511		—	5.70
SKr Accum	SKr123.28		—	3.00
SFr Accum	SFr29.478		—	0.50
US$ Accum	$24.126		—	4.60
Yen Accum	Y2692.0		—	0.10

Prices for dealing May 22

Jupiter Asset Management (Bermuda) Ltd
PO Box HM1258, Hamilton, Bermuda — 081 809 292 2700
Jupiter Tyndall World Umbrella Fund Ltd

	Selling Price	Buying Price	+ or -	Yield Gr's
Eurobond	$16.01	16.87	-0.02	4.14

Rothschild Asset Management - Contd.
Five Arrows International Reserves Ltd

	Selling Price	Buying Price	+ or -	Yield Gr's
FAIRL £	£46.388		—	6.24
FAIRL A$	A$51.557		—	4.81
FAIRL C$	C$37.488		—	1.95
FAIRL DFl	Dfl101.621		—	1.99
FAIRL DKr	DKr404.13		—	2.38
FAIRL DM	DM39.201		—	1.99
FAIRL ECU	Ecu32.883		—	3.01
FAIRL BFr	BFr2065.37		—	1.99
FAIRL FM F	FM302.888		—	1.49
FAIRL FFr	FFr467.436		—	2.19
FAIRL HK$	HK$185.55		—	4.78
FAIRL Lire	L149596		—	5.94
FAIRL NZ$	NZ$48.255		—	5.68
FAIRL NKr F	NKr405.095		—	2.02
FAIRL S$	S$39.252		—	2.60
FAIRL R F	R533.955		—	15.28
FAIRL Pta	Pta4624.65		—	4.41
FAIRL SF	SFr77.572		—	0.48
FAIRL SKr	SKr206.40		—	3.08
FAIRL U.S.$	$34.405		—	4.58
FAIRL Yen	Y10114.00		—	0.00
FAIRL Man £	£28.803		—	4.87
FAIRL Man DM	DM57.329		—	1.98
FAIRL Man $	$31.854		—	4.12
FAIRL Man Int	$21.247		—	2.62

Five Arrows Currency Fund Ltd

	Selling Price	Buying Price	+ or -	Yield Gr's
FACFL £	£10.0377d		—	5.05
FACFL A$	A$15.0536		—	4.00
FACFL C$	C$20.027d		—	1.78
FACFL DFl	Dfl50.069d		—	1.88
FACFL DKr	DKr150.28d		—	2.31
FACFL DM	DM40.048d		—	1.85
FACFL ECU	Ecu15.028d		—	2.81
FACFL BFr	BF400.98d		—	1.86
FACFL FM F	FM70.038d		—	0.57
FACFL FFr	FFr80.102d		—	1.94
FACFL HK$	HK$180.35d		—	4.88
FACFL Lire	L29083d		—	5.69
FACFL NZ$	NZ$25.101d		—	5.90
FACFL NKr F	NKr100.31d		—	1.85
FACFL S$	S$30.045d		—	2.84

IRELAND (REGULATED)(**)

Murray Johnstone (Dublin) Ltd
Europa House, Harcourt St, Dublin 2 — 3531 407 2000
Murray Global Accumulation Fund Plc

	Selling Price	Buying Price	+ or -	Yield Gr's
Murray Financials Bond 2	108.56		+0.04	5.82
US Dollar Financials Bond 2	$1.0146		+0.005	4.40

Odey Asset Management Ltd
60 Harcourt Street, Dublin 2 — 00 3531 790 2400

	Selling Price	Buying Price	+ or -	Yield Gr's
Odey European Gth Inc	DM198.73		—	-
Odey European Gth Acc	DM197.45		—	-
Odey European Gth Inc	£70.33		—	-
Odey European Gth Acc	£70.56		—	-

Old Mutual International Fd Mngrs Ltd (a)
50 Dawson Street, Dublin 2, Ireland — 00 353 1 6621555

	Selling Price	Buying Price	+ or -	Yield Gr's
OMI Galileo Euro Stock	$1.585		—	0.00
OMI Galileo Em Asia Eq	$0.832		—	0.00
OMI Galileo Emer Mkt Bd	$1.323		—	5.98
OMI Galileo Emer Mkt Eq	$1.186		—	0.00
OMI Galileo Glbl Mgd	$1.458		—	1.18
OMI Galileo Glbl Spec Mkt	$1.410		—	1.15

Barclays Global Investors Ireland Ltd
BZW Fixed Income Selection Fund Plc

	Selling Price	Buying Price	+ or -	Yield Gross
Sterling Liquidity A	£11.222340		—	-
US Dollar Liquidity A	$11.098032		—	-
US Dollar Liquidity B	$10.939658		—	-

Baring International Fd Mgrs (Ireland) Ltd

	Selling Price	Buying Price	+ or -	Yield Gross
Australia	$35.41	37.19	—	1.39
Japan Fund	$23.41	24.58	—	0.00
Malay Sing.	$137.25	144.12	—	0.00
Nth American	$48.18	50.60	—	0.00
Octopus Fund	$44.24	46.46	—	0.09
Pacific Fd	$721.51	727.59	—	0.00
International Bond	$20.67	21.71	—	5.12
Europa Fund	$26.65	27.99	—	0.25
Tristar Warrant	$37.94	39.84	—	0.00
Hong Kong	$180.13	189.14	—	0.00
Global Emerging Mkts	$12.61	13.25	—	0.00
Latin America	$17.90	17.95	—	0.00
Currency Fd-US Dollar	$18.70		—	5.11

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

GUERNSEY (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

BERMUDA (REGULATED)(**)

IRELAND (SIB RECOGNISED)

JERSEY (REGULATED)(**)

JERSEY (SIB RECOGNISED)

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Offshore Funds and Insurances

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LUXEMBOURG (SIB RECOGNISED)

ABN AMRO Funds (u)

Fidelity Funds - Contd.

Fleming Group (u)

Mercury Asset Management - Contd.

ACM Global Investment - Contd.

Credis Investment Funds - Contd.

Merrill Lynch Asset Management - Contd.

Swiss Bank Corporation - Contd.

Eagle Star Intl Life - Contd.

Equitable Life (International)

LUXEMBOURG (REGULATED)(**)

ACM Global Investment

OFFSHORE INSURANCES

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OTHER OFFSHORE FUNDS

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (May 26 / Sch)

BELGIUM/LUXEMBOURG (May 26 / Frs.)

CZECH REP (May 26 / Koruna)

DENMARK (May 26 / Kr)

FINLAND (May 26 / Mkka)

FRANCE (May 26 / Frs.)

GERMANY (May 26 / Dm.)

GREECE (May 23 / Drachma)

ITALY (May 26 / Lire)

NETHERLANDS (May 26 / Fls.)

NORWAY (May 26 / Kroner)

POLAND (May 26 / Zloty)

PORTUGAL (May 26 / Escudo)

SPAIN (May 26 / Pts.)

SWEDEN (May 26 / Kronor)

SWITZERLAND (May 26 / Frs.)

TURKEY (May 26 / Tk.Lira)

PACIFIC

JAPAN (May 26 / Yen)

HONG KONG (May 26 / H.K.$)

INDONESIA (May 26 / Rupiah)

MALAYSIA (May 26 / M$)

NEW ZEALAND (May 26 / NZ $)

SINGAPORE (May 26 / S$)

AUSTRALIA (May 26 / Aust$)

SOUTH KOREA (May 26 / Won)

TAIWAN (May 26 / TW $)

THAILAND (May 23 / Baht)

NORTH AMERICA

CANADA

TORONTO (May 26 / Can $) 4 pm close

MONTREAL (May 26 / Can $) 4 pm close

AFRICA

SOUTH AFRICA (May 26 / Rand)

INDICES

INDEX FUTURES

US INDICES

Dow Jones	May 23	May 22	May 21	1997 High	1997 Low	Since compilation High	Since compilation Low
Industrials	7345.91	7258.13	7290.69	7345.91 (23/5)	6391.69 (11/4)	7345.91 (23/5/97)	41.22 (8/7/32)
Home Bonds	102.26	102.18	102.22	103.63 (19/2)	101.09 (14/4)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	2693.37	2660.59	2662.54	2693.37 (23/5)	2222.07 (2/1)	2693.37 (23/5/97)	13.23 (8/7/32)
Utilities	220.56	219.28	220.11	240.85 (22/1)	209.47 (25/4)	256.46 (31/8/93)	16.53 (8/7/32)

DJ Ind. Day's high 7348.79 (7348.79) Low 7210.33 (7210.33) (Theoretical‡)
Day's high 7310.08 (7310.08) Low 7242.47 (7242.47) (Actual‡)

Standard and Poors	May 23	May 22	May 21	1997 High	1997 Low	Since compilation High	Since compilation Low
Composite‡	847.03	835.66	839.35	847.03 (23/5)	737.01 (2/1)	847.03 (23/5/97)	4.40 (1/6/32)
Industrials♥	989.55	986.04	991.23	989.55 (23/5)	865.42 (11/4)	989.55 (23/5/97)	3.52 (30/6/32)
Financial	94.68	93.30	93.34	97.25 (10/3)	80.75 (2/1)	97.25 (10/3/97)	7.13 (4/9/74)
NYSE Comp.	440.28	434.66	436.21	440.28 (23/5)	389.47 (11/4)	440.28 (23/5/97)	4.64 (25/4/42)
Amex Comp.	597.94	593.73	592.06	603.63 (10/3)	541.20 (28/4)	617.61 (22/5/96)	524.20 (16/7/96)
NASDAQ Comp	1389.72	1372.59	1373.75	1389.72 (23/5)	1201.00 (2/4)	1389.72 (23/5/97)	54.87 (3/10/74)

■ RATIOS

	May 16	May 9	May 2	Year ago
Dow Jones Ind. Div. Yield	1.71	1.71	1.73	2.17
	May 21	May 14	May 7	Year ago
S & P Ind. Div. yield	1.67	1.68	1.72	1.83
S & P Ind. P/E ratio	23.39	23.89	23.33	22.71

■ NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Westinghse	17,119,600	18⅞	+1⅜
Seagate Tch	11,279,300	40	-2⅛
Philip Mrs	8,494,400	45⅞	+⅝
AT&T	6,750,200	36⅛	+¼
Cardinal H	5,702,400	57¼	+4¼
Wst Digital	5,639,200	52⅜	-4⅛
Gen Elec	5,427,300	61⅜	+⅝
Micron Tech	4,827,600	38¾	+2
Pepsico	3,739,200	36½	+1⅛
Mirage Res	3,027,100	24	-¼

■ TRADING ACTIVITY

● Volume (million)

	May 23	May 22	May 21
New York SE	405.714	416.231	527.658
Amex	15.635	17.279	17.436
NASDAQ	(u)	572.059	663.607
NYSE			
Issues Traded	3,308	3,351	3,348
Rises	1,675	1,276	1,423
Falls	618	1,179	1,117
Unchanged	616	696	808
New Highs	206	154	178
New Lows	13	9	9

■ S&P 500	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	840.05	847.75	+7.50	852.00	841.60	59,516	172,087
Sep	851.80	858.35	+7.60	861.00	850.40	2,529	12,909

■ Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	20100.0	20150.0	+120.0	20160.0	19960.0	12,301	231,739
Sep	20100.0	20120.0	+70.00	20170.0	20020.0	624	18,015

Open interest figures for previous day.

Prices supplied by Telekurs, part of FT Information.

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. * Calendar year high and low. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

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■ TOKYO - MOST ACTIVE STOCKS: Monday, May 26 1997

	Stocks Traded	Closing Prices	Change on day
Mitsubishi Hvy	5.5m	865	+2
Nippon Steel	4.5m	350	+1
Shinko Electric	3.8m	467	+80
Toyota Motor	3.7m	3590	+170
Nomura Secs	3.4m	1470	+60
Sharp	3.1m	1530	-30
Shin-Etsu Chem	3.0m	2690	+100
Nissho Iwai	2.7m	489	+2
Hitachi Zosen	2.6m	470	-20
Kawasaki Steel	2.6m	359	+3

Tidal wave engulfs shaky Paris bourse

EUROPE

In the absence of the exuberant US market and its anxious. UK counterpart, both on holiday, 10 continental bourses notched up all-time highs.

The main exception was PARIS, engulfed in a tidal wave of uncertainty in the wake of Sunday's first round election vote.

A fifth of the CAC 40 index components showed losses of more than 5 per cent. The banks took a nasty hit, and Thomson CSF tumbled nearly 10 per cent.

CSF, off FFr18.20 at FFr171.30, was the day's heaviest casualty as talk that the planned sale of the state's 58 per cent stake in the company would be abandoned should a left-wing government emerge victorious next Sunday.

The fall-out was widespread. Lagardère and Alcatel Alsthom, the two groups vying to acquire CSF, fell FFr10.80 or 5.8 per cent to FFr174.50, and FFr19 to FFr661 respectively.

Banks suffered from worries about the EMU timetable and fears for an end to the restructuring talk that the market had been enjoying all year. BNP came off FFr16 or 6.1 per cent to FFr247 and Société Générale retreated FFr42 to FFr654.

Sentiment was said to have been severely shaken, although actual volume was fairly modest at 12.56m shares. Euro Disney improved 5 centimes to FFr9.

The CAC 40 index closed down 108.16 at 2,654.74.

FRANKFURT shook off early weakness on the French polls, moving from a Dax low of 3,598.56 to peak 47.59 higher at an Ibis-indicated 3,669.31. Turnover reflected the Anglo-Saxon holiday with a fall from DM11.3bn to DM10.2bn.

Mr Jens Wiecking at Prof. Dr. Dolff & Partners said that the focus of the market had moved from a rising dollar and a favourable interest rate environment to corporate results and takeover stories; Roche's price for Boehringer was seen as an indication that chemicals were cheap.

Bayer and BASF rose DM1.75 to DM68.65, and DM1.65 to DM66.15 respectively. Commerzbank, with 10 years of takeover rumours behind it, rose DM1.60 to DM51.20; it was bracketed by by gains of 3.3 per cent and 3.1 per cent at Allianz and Munich Re, big insurers that were seen more as predator than victim, up DM12 to DM373, and DM134 to DM4,489.

On the broad market, said Mr Wiecking, longer term rates had risen recently, taking the average long bond yield back to 5.18 per cent, where it was at the end of March; at that time, he noted, the Dax was around 3,300 and the dollar DM1.725.

AMSTERDAM racked up another record and looked to have been a beneficiary of investors switching out of France. The AEX index rose 8.23 to 812.19.

ING and Fortis Amev appeared to anticipate good first-quarter statements this week. ING added Fl 2.70 or 3.1 per cent at Fl 88.80 in 3.1m shares traded, while Amev jumped Fl 2.30 to Fl 82.20.

There was an early morning rumour that Akzo Nobel was set to announce a big acquisition, possibly the tioxide paints operations of ICI of the UK.

But the shares stayed on the upside, gaining Fl 2.80 to Fl 266, helped by hopes of an upbeat meeting with analysts on Friday.

BRUSSELS celebrated Paribas's Gevaert reshuffle involving the investment company itself, Almanij and Cobepa, which left the trio up 12.3 per cent, 7 per cent and 6.3 per cent respectively: by BFr565 at BFr3340, BFr1,075 at BFr16,500 and BFr90 at BFr1,520.

It speculated on separate alliances in the banking sector, with Kredietbank up BFr200 at BFr14,400 and BBL BFr250 better at BFr9,300. But it lacked strength in depth, and the Bel-20 index came in just 11.26 higher at 2,279.04.

ZURICH took on board the Roche admission that its acquisition of Boehringer Mannheim was likely to dilute earnings in its first year, and Roche certificates came back to close SFr185 lower at SFr13,005 after an earlier intra-day high of SFr13,745. However, the SMI index still scored a record high, up 15.7 at 5,196.7.

MADRID saw strength in utilities and banks as it extended its record run, the sectors gaining 3.1 and 2.5 per cent respectively as the general index put on 11.83 at 570.73. In utilities, Fecsa rose Pta65 or 5.2 per cent to Pta1,310 and Iberdrola Pta70 to Pta1,920. In banks, Bankinter rose Pta1,190 or 4.8 per cent to Pta26,000 as it brought in an employee incentive scheme, and BBV by Pta290 to Pta10,300, supported by news of a share split after weakness in the stock last week, dealers said.

MILAN moved lower. BCI continued to slip as investors fretted about potential takeover forays. The shares dipped L100 to L3,350. There was profit-taking among telecoms stocks. Stet fell L178 to L8,515. The Mibtel index closed with a loss of 178 to 12,253.

BUDAPEST closed at a new high, the Bux index rising 117.73 to 5,991.32. With London closed, the supply of stock was weaker than it might have been, and brokers, pragmatically, foresaw profit-taking today.

Written and edited by William Cochrane and Jeffrey Brown

Foreign support for Japanese stocks

Gwen Robinson on the arguments for, and against, Japan's recent equity revival

At the height of the yen's rally against the dollar last week, when the US currency approached Y111 and the Nikkei 225 average fell 2.4 per cent, observers were still pointing to signs of new resilience in Tokyo equities.

The key index recovered on Friday, amid signs that the dollar had stabilised for the time being in the Y116-Y118 range. On Monday, the index closed at 20,009.00, up 11 per cent since the end of Japan's fiscal year on March 31.

The view that Japan's equity market is recovering – or at least bottoming out – has been a popular theme recently among Japan-based analysts and foreign fund managers. The prognosis is tempered, however, by lingering concerns about currency movements, the pace of Japan's economic recovery and anxiety about the impact of a possible interest rate increase. Recent assurances by Japanese officials that the official discount rate, now at a historic low of 0.5 per cent, would not be increased until a solid economic recovery is under way, have laid market rumours to rest for now.

Several factors contribute to the bullish view, including forthcoming reforms in the securities field as part of the government's "big bang" financial deregulation plan. Stock options will be introduced next month, to be followed by the abolition of fixed commissions on securities transactions some time next year.

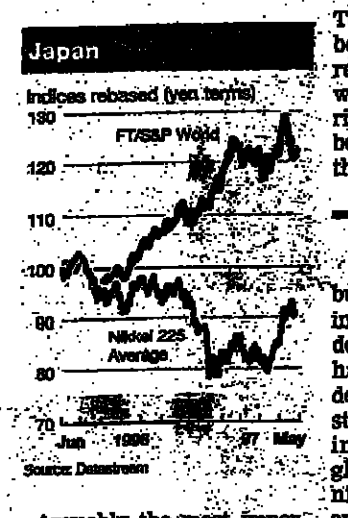
The recent scandals stemming from Nomura Securities' illegal trading activities point to greater policing by financial authorities. In step with a growing shift to international accounting standards, enhanced transparency and better corporate governance; this will inspire greater confidence among investors, analysts say.

Another factor is the steady improvement in corporate profits. In the current annual reporting season, which finishes this week, companies have so far posted an increase of nearly 16 per cent in aggregate profits. In the short term, profit growth may provide a poor guide to equity market movements, says Neil Rogers of UBS Securities in Tokyo. "But over the medium term, profit growth sets the ceiling for equity market returns."

Furthermore, Japanese stocks are particularly attractive, when valued against cash flow rather than reported earnings per share, says Charles Clough, chief investment strategist with Merrill Lynch.

The sky-high price/earnings multiples so common to Japanese companies are "a little contrived", he says.

Taking telecommunications giant NTT as an example, he says that NTT's p/e ratio of 49 is based on estimated 1998 earnings, but that the company has a multiple of 5.6 against the cash flow benchmark.



Arguably the most important factor in the stock market's rise, however, has been the steady increase of foreign investors buying into Japanese equities. While not yet as excited as in 1994, when foreign buying surged, international fund managers are eyeing Tokyo with a great deal more interest than seen early last year. According to Alexander Kinmont of Morgan Stanley in Tokyo, "Japan has started to bottom out, at least for now, relative to the rest of the world. Consequently, the risk of being out of Japan is beginning to appear greater than the risk of being in."

The market's fall last week demonstrated an ongoing shift in stock-buying patterns among large investors, both foreign and domestic. The equity market has been increasingly described as two-tiered, with stock performances diverging sharply between globally-competitive companies with strong earnings and domestic demand-driven laggards, including construction and real estate issues.

But buying interest has broadened to encompass a range of sectors, including those reliant on the domestic market. Even retailers, entirely dependent on domestic consumption and facing the effects of the April 1 sales tax increase from 3 to 5 per cent, have recently made substantial gains.

Hong Kong peaks on overseas money

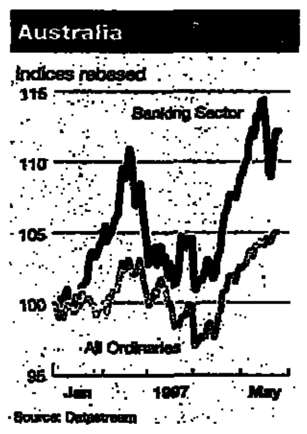
ASIA PACIFIC

Overseas money continued to pour into **HONG KONG**. The Hang Seng index peaked again, up 242.96 or 1.7 per cent at 14,574.64, and turnover surged to HK$20.6bn, comfortably eclipsing the record set 12 days ago.

Strong liquidity, red chip fever and pressure from futures ahead of Thursday's expiries all contributed. In properties, Cheung Kong jumped HK$3 to HK$80; and six of the day's most active stocks were mainland-backed shares, following a grey market surge for Beijing Enterprises.

Beijing Enterprises was said to be changing hands at more than HK$40 against a flotation price of HK$12.48. The offer was widely thought to have been more than 1,000 times subscribed.

Among other recent new issues, Chu Kong Shipping jumped 97.5 cents to HK$4.575. The stock, which made its debut on Friday, was issued at HK$1.20.



SYDNEY shrugged off a profits warning from BHP to close higher, underpinned by good demand for banks and building shares. The All Ordinaries index ended up 20.9 or 0.8 per cent at 2,584.8.

BHP slid 40 cents to A$18.92 after the resources giant warned of difficult trading. But banks were strong, and building stocks rose almost 3 per cent on a sector basis.

Both were pushed ahead by Friday's interest rate cut. NAB gained 14 cents to A$18.93 and ANZ put on 21 cents to A$8.53. Among builders, CSR added 14 cents at A$4.69 and Pioneer gained 16 cents to A$4.46. Boral rose 15 cents to A$3.98.

TOKYO made modest gains on strong demand for carmakers and other export-driven issues that declined sharply last week as the dollar plunged against the yen, *writes Gwen Robinson.*

The Nikkei 225 average rose 34.50 to 20,043.50 after moving between 19,989.10 and 20,154.52. Turnover fell sharply from 368m shares to an estimated 269m due to the holiday weekend in the US and in the UK. Declines narrowly led advances 552 to 505 with 185 unchanged.

Good corporate prospects also drew buying interest. Shin-Etsi Chemical, a leading maker of silicon for use in semiconductors, rose Y100 to Y2,690 on Friday's report that it expects parent recurring profit to rise nearly 30 per cent in the business year to March. Shinkyo Electric and Tamura Electric Works, both involved in development of pre-paid integrated circuit cards, surged on reports that telecommunications giant NTT would use the cards for a new telephone card system.

Among carmakers, Toyota jumped Y170 to Y3,590 and Honda Y50 to Y3,580. Other big exports saw Sony add Y20 to Y9,700, Canon Y80 to Y2,910 and Matsushita Electric Industrial Y50 to Y2,170; but TDK fell Y60 to Y8,570 and Pioneer Electronic Y60 to Y2,570.

Securities houses rose on short-covering, with Nomura up Y60 at Y1,470. Banks were mixed: Fuji Bank added Y20 to Y1,540 and Sakura Bank Y17 to Y722, while Daiwa Bank lost Y13 at Y445. Sumitomo Trust and Toyo Trust retreated Y20 to Y1,070 and Y7 to Y824 respectively on reports that the trust banks planned to issue convertible bonds overseas to boost their capital adequacy ratios.

In Osaka, the OSE average added 29.46 to 20,879.39 and volume dwindled to 13m shares.

SHENZHEN went into reverse again, dropping 4.5 per cent after the Shenzhen Development Bank, a large-cap company on the local currency A share market, said that it would defer a shareholders' meeting pending an investigation into trading irregularities.

The foreign currency B share index dropped 6.85 to 146.34 as turnover soared from HK$99m to HK$263.5m. Shenzhen Bank officials declined to elaborate; its shares ended at Yn37.80, down Yn1.25 or 3.2 per cent, after an intra-day low of Yn35.60.

Strong run for Canadian financials

AMERICAS

Buoyed by a strong run for financials, **TORONTO** pushed ahead in light volume. Dealers said that although the absence of Wall Street had reduced activity, some sectors met with good buying. At noon, the 300 composite index was up 51.39 at 6,472.90.

Banks forged ahead in anticipation of good news on earnings. Bank of Montreal rose 90 cents to C$55 and Bank of Nova Scotia gained C$110 to C$58.65. Both banks post results today. Royal Bank of Canada added C$1.30 at C$61.35.

"The market is clearly looking for some good numbers from the banks. There is talk of record earnings and a possible upkick for dividends," said one broker.

Elsewhere, Seagram rose 80 cents to C$56.00 and Alcan Aluminium gained 10 cents to C$50.10. Among golds, Barrick paid scant attention to the flat bullion price, adding 30 cents to C$34.15.

MEXICO CITY made modest progress with dealers citing slow volumes. Dealers said the slack turnover was caused by the absence of US investors. "It's just range trading this morning," said one dealer. News of participation in a development project at the Mexico City racecourse boosted the ECE restaurant chain. The shares gained 72 centavos to 11.44 pesos. At midsession the IPC index was up 4.27 at 3,992.56.

SANTIAGO saw a modest downward dip at the opening bell after profit-takers moved into electricity utilities, but the market clawed back on to the upside as the morning session progressed. At midsession, the IPSA index had pushed up to a three-year high with a gain of 0.32 to 124.90.

CARACAS stayed on the upside.

The IBC index, which staged a four-day rally last week, was 3.86 higher at 6,750.55 at midsession.

BUENOS AIRES also traded quietly, after notching up its tenth consecutive day of gains on Friday.

At midsession, the Merval index was 2.11 ahead at 769.89.

South Africa dips in narrow trading

Shares in Johannesburg traded narrowly to end marginally lower, the main focus being on selected financials.

Standard Bank took a knock on news that its merchant bank offshoot was owed R230m by New Age Beverages, which had applied for liquidation; and Amalgamated Banks of South Africa fell foul of disappointing annual results.

At the close, the all-share index was off 4.2 at 7,067.5.

Industrials managed to push higher, adding 7.5 to 8,319.6, but golds continued to suffer from bullion price blues.

The golds index ended 3.1 lower at 1,189.1.

The day's central focus was on the banking sector where Standard Bank fell R7.75 to R205, having been as low as R200 at one stage during the morning session.

The eventual clawback followed a statement from the bank that it could take the loss without any significant impact on future earnings.

The Absa results came in short of broker expectations. The shares were showing a gain of 10 cents prior to the news flash but quickly fell back. They ended R1.00 lower at R28.75.

South African Breweries eased 75 cents to R127.25 after it was learned that Mr Meyer Kahn, the group's executive chairman, had been seconded to the police service for two years.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY MAY 23 1997 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	THURSDAY MAY 22 1997 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (76)	231.51	-1.2	210.57	168.87	203.49	201.08	0.7	3.85	234.33	212.54	171.72	206.28	199.63	234.37	188.44	206.28
Austria (24)	197.86	0.4	179.96	144.32	173.91	173.85	0.2	1.89	197.14	178.82	144.47	173.55	173.50	197.86	174.70	190.24
Belgium (26)	252.34	1.0	229.52	184.06	221.80	217.18	0.8	3.29	249.93	226.70	183.16	220.02	215.42	252.34	206.70	211.11
Brazil (30)	258.19	0.2	234.84	188.33	226.94	508.90	0.3	1.41	257.64	233.69	188.81	226.81	507.30	258.50	162.65	167.26
Canada (113)	207.96	1.3	189.15	151.69	182.79	206.82	1.5	1.88	205.22	186.14	150.39	180.66	203.79	207.96	154.12	163.56
Denmark (32)	388.69	0.6	353.54	283.52	341.65	340.38	0.4	1.49	386.53	350.60	283.27	340.27	338.95	389.66	282.69	296.95
Finland (28)	279.84	1.1	254.53	204.12	245.97	299.58	1.1	1.52	276.71	250.99	202.79	243.60	296.42	279.84	186.67	192.56
France (91)	230.92	0.8	210.03	168.44	202.97	206.34	0.7	2.75	229.11	207.81	167.90	201.69	204.92	232.34	186.94	194.33
Germany (59)	213.83	0.7	194.49	155.97	187.95	187.95	0.6	1.51	212.29	192.55	155.57	186.88	186.88	213.83	167.18	169.07
Hong Kong (86)	508.25	0.5	462.29	370.73	446.74	505.06	0.6	2.99	505.57	458.57	370.50	445.07	502.16	514.49	407.55	433.31
Indonesia (27)	225.09	0.8	204.73	164.19	197.85	337.13	0.8	1.69	223.34	202.58	163.68	196.61	334.59	–	–	–
Ireland (16)	346.65	0.0	315.30	252.85	304.69	323.05	0.3	3.02	346.63	314.41	254.02	305.15	322.11	350.96	270.06	278.91
Italy (59)	91.15	0.3	82.91	66.49	80.12	113.39	0.2	2.21	90.81	82.46	66.62	80.03	113.19	96.32	73.26	82.78
Japan (485)	132.14	1.5	120.19	96.38	116.15	96.38	1.0	0.82	130.19	118.09	95.41	114.61	95.41	158.25	107.57	155.80
Malaysia (107)	531.03	1.1	483.01	387.35	466.76	511.81	1.1	1.33	525.08	476.27	384.80	462.24	506.07	660.85	510.10	559.59
Mexico (27)	1437.55	-0.3	1307.55	1048.59	1263.57	12383.00	-0.2	1.21	1442.01	1307.96	1056.76	1269.43	12403.27	1445.68	1110.35	1310.77
Netherland (19)	377.65	0.3	343.49	275.46	331.94	327.61	0.2	2.39	376.36	341.37	275.81	331.31	326.90	377.65	279.86	295.60
New Zealand (14)	87.88	-0.6	79.94	64.10	77.25	67.54	-0.1	4.26	88.42	80.20	64.79	77.83	67.60	95.60	75.94	79.68
Norway (41)	312.98	0.6	284.67	228.29	275.10	299.23	0.6	2.06	311.08	282.17	227.97	273.85	297.32	321.23	246.04	248.15
Philippines (22)	158.76	1.6	144.40	115.80	139.54	208.71	1.6	0.89	156.25	141.73	114.51	137.55	205.42	–	–	–
Singapore (42)	389.13	0.2	353.94	283.84	342.04	256.79	0.2	1.17	388.51	352.39	284.71	342.01	256.29	448.01	380.08	418.15
South Africa (44)	354.57	-0.5	322.51	258.63	311.66	346.57	-0.5	2.48	356.46	323.33	261.23	313.80	348.27	370.12	301.49	350.67
Spain (35)	254.83	0.4	231.78	185.88	223.99	275.28	0.4	2.37	253.90	230.29	186.06	223.51	274.30	255.72	171.91	177.59
Sweden (49)	467.61	1.2	425.32	341.09	411.01	525.55	1.5	1.97	461.84	418.91	338.45	406.57	517.82	467.61	334.35	350.56
Switzerland (35)	297.42	0.3	270.53	216.95	261.43	259.51	0.1	1.29	296.53	268.96	217.30	261.04	259.30	297.42	229.36	230.28
Thailand (43)	64.23	0.6	58.43	46.85	56.46	63.95	0.5	4.88	63.85	57.91	46.79	56.21	63.66	180.09	59.76	175.75
United Kingdom (211)	299.76	-0.1	272.65	218.65	263.48	272.65	0.2	3.65	300.00	272.12	219.85	264.10	272.12	303.18	229.63	230.10
USA (652)	342.72	1.4	311.73	249.99	301.24	342.72	1.4	1.78	338.15	306.71	247.81	297.68	338.15	342.72	254.79	275.36
Americas (822)	313.75	1.3	285.37	228.86	275.77	264.13	1.3	1.78	309.65	280.87	226.93	272.60	260.66	313.75	233.09	251.51
Europe (725)	264.29	0.4	240.38	192.77	232.29	242.55	0.4	2.62	263.33	238.85	192.98	231.82	241.59	264.79	204.71	207.72
Nordic (150)	401.48	1.1	365.17	292.85	352.89	390.60	1.2	1.84	397.28	360.35	291.14	349.73	386.10	401.48	291.45	298.99
Pacific Basin (882)	150.31	1.2	136.72	109.64	132.12	110.37	0.9	1.30	148.59	134.77	108.89	130.80	109.35	170.85	127.18	168.74
Euro-Pacific (1607)	197.85	0.7	179.96	144.32	173.91	160.24	0.6	2.03	196.45	178.18	143.96	172.94	159.22	198.16	173.55	184.87
North America (765)	334.52	1.4	304.27	244.01	294.03	333.75	1.4	1.79	330.06	299.38	241.88	290.56	329.27	334.52	248.65	268.44
Europe Ex. UK (514)	238.96	0.6	217.35	174.30	210.04	220.74	0.5	2.04	237.51	215.43	174.06	209.09	219.62	238.96	185.65	190.28
Pacific Ex. Japan (397)	307.05	0.1	279.28	223.97	269.89	268.10	0.7	2.79	306.67	278.16	224.74	269.97	266.31	320.65	268.97	290.81
World Ex. US (1821)	201.21	0.7	183.01	146.77	176.86	166.55	0.6	2.01	199.79	181.22	146.42	175.89	165.48	201.27	178.94	186.16
World Ex. UK (2262)	241.01	1.1	219.22	175.80	211.84	211.48	1.1	1.72	238.33	216.18	174.66	209.81	209.27	241.01	199.56	212.15
World Ex. Japan (1988)	304.62	0.9	277.07	222.20	267.76	293.44	1.0	2.13	301.89	273.82	221.23	265.76	290.65	304.62	233.10	245.99
The World Index (2473)	246.06	1.0	223.80	179.48	216.28	217.09	1.0	1.91	243.61	220.96	178.53	214.45	215.00	246.06	202.32	213.82

CONSTITUENT CHANGE 27/5/97: Deletion: Contrail (USA). Latest prices were unavailable for this edition.